OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Mattes of:

Docket No.: R2006-1

POSTAL RATE AND FEE CHANGES

VOLUME #27

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November 2, 2006

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POSTAL RATE CONMISSION

In the Matter of:

) Docket No.: R2006-1
POSTAL RATE AND FEE CHANGES
)

Suite 200
Postal Rate Commission
901 New York Avenue, N.W.
Washington, D.C.

Volume 27 Thursday, November 2, 2006

The above-entitled matter came on for hearing pursuant to notice, at $9:31\ a.m.$

BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN HON. DAWN A. TISDALE, VICE-CHAIRMAN HON. TONY HAMMOND, COMMISSIONER HON. RUTH Y. GOLDWAY, COMMISSIONER

APPEARANCES:

On behalf of United States Postal Service:

SCOTT L. REITER, Esquire ERIC KOETTING, Esquire United States Postal Service 475 L'Enfant Plaza West, S.W. Washington, D.C. 20260 (202) 268-2999 APPEARANCES: (Cont'd.)

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On behalf of Parcel Shippers Association:

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<u>CONTENTS</u>

WITNESSES APPEARING:

JOHN McALPIN
SANDER GLICK
PETER A. ANGELIDES
JOHN HALDI (Not Present)
RALPH L. LUCIAN1

WITNESSES:	DIRECT	CROSS	REDIRECT	RECROSS	VOIR DIRE
Ralph L. Luciani by Mr. McKeever by Mr. May	9404 9446				

DOCUMENTS TRANSCRIBED INTO THE RECORD	<u>PAGE</u>
Corrected Designated Written Cross-Examination of John McAlpin, PSA-T-2	9332
Postcom-T1-2&3, Designated Written Cross-Examination of Witness Glick	9339
Postcom-T-5, Corrected Designated Written Cross-Examination of Witness Angelides	9344
Postcom-T-4, Corrected Designated Written Cross-Examination of Witness Peter A. Angelides	9362
AMZ-T-1, Corrected Designated Written Cross-Examination of Witness Haldi	9374
UPS-T-2, Corrected Designated Written Cross-Examination of Witness Luciani	9407

EXHIBITS

EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
PSA-T-2, Corrected Direct Testimony of Witness John McAlpin	9330	9330
PSA-T-2, Corrected Designated Written Cross-Examination of Witness John McAlpin	9331	9331
PSA/Postcom-T-1, Corrected Direct Testimony of Witness Sander Glick,	9337	9337
USPS/PSA/Postcom-T1-2&3, Designate Written Cross-Examination of Witness Sander Glick	ed 9338	9338
Postcom-T-5, Corrected Direct Testimony of Witness Peter A. Angelides	9342	9342
Postcom-T-5, Corrected Designated Written Cross-Examination of Witness Peter A. Angelides	9343	9343
Postcom-T-4, Corrected Direct Testimony of Witness Peter A. Angelides	9361	9361
Postcom-T-4, Corrected Designated. Written Cross-Examination of Witness Peter A. Angelides	. 9361	9361
AMZ-T-1, Corrected Direct Testimony of Witness John Haldi	9372	9372
AMZ-T-1, Corrected Designated Written Cross-Examination of Witness John Haldi	9373	9373
UPS-T-2, Corrected Direct Testimony of Witness Ralph L. Luciani	9405	9405

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EXHIBITS

EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
UPS-T-2, Corrected Designated Written Cross-Examination of	9406	9406
Witness Luciani		

1	<u>PROCEEDINGS</u>
2	(9:31 a.m.)
3	CHAIRMAN OMAS: Again, good morning. Today
4	we continue hearings to receive the direct case of
5	participants other than the Postal Service in Docket
6	Number R2006-1, considering the Postal Service's
7	request for rate and fee changes.
8	Commissioner Acton is not going to be with
9	us.
10	Does anyone have any procedural matters to
11	discuss before we continue this morning.
12	(No response.)
13	CHAIRMAN OMAS: There being none, we have a
14	number of witnesses scheduled today to appear. They
15	are witnesses McAlpin, Holliday, Glick, Luciani and
16	Angelides. Hope I pronounced that correct. For the
17	convenience of witnesses and counsel we will first
18	enter the testimony of witnesses for whom there is no
19	cross-examination into evidence.
20	Mr. May, would you please?
21	MR, MAY: Thank you, Mr. Chairman. I have
22	two copies of the direct testimony of John McAlpin on
23	behalf of Parcel Shippers Association, PSA-T-2. I
24	have yesterday filed with the Commission a declaration
25	of authenticity for this testimony and I move that it

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1	be admitted into evidence.
2	CHAIRMAN OMAS: Is there any objection?
3	(No response.)
4	CHAIRMAN OMAS: Hearing none, Mr. May, would
5	you please provide the reporter with two copies of the
6	corrected direct testimony of John McAlpin. That
7	testimony is received into evidence.
8	(The document referred to was
9	marked for identification as
10	Exhibit No. PSA-T-2, and was
11	received in evidence.)
12	However, as is our practice, it will not be
13	transcribed.
14	Mr. May, have the Answers to the Designated
15	Written Cross-Examination been received and
16	corrected reviewed, excuse, and corrected?
17	MR. MAY: Yes, Mr. Chairman, they are. And
18	I have yesterday filed a designation of authenticity
19	of Mr. McAlpin's responses to these interrogatories.
20	CHAIRMAN OMAS: Thank you, Mr. May.
2 1	Mr. May, would you again please provide two
22	copies of the Corrected Direct Corrected Designated
23	Written Cross-Examination of Witness McAlpin to the
24	reporter. That material is received into evidence,
25	and it will be transcribed into the record.

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1		(The document referred to was
2		marked for identification as
3		Exhibit No. PSA-T-2, and was
4		received in evidence.)
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BEFORE THE POSTAL RATE COMMISSION WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF PARCEL SHIPPERS ASSOCIATION
WITNESS JOHN MCALPIN
(PSA-T-2)

<u>Party</u> <u>Interrosatories</u>

United States Postal Service USPS/PSA-T2-1-2

Respectfully submitted,

Steven W. Williams

Secretary

INTERROGATORY RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JOHN MCALPIN (T-2) DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u> <u>Designating Parties</u>

USPSIPSA-T2-1 USPS USPSIPSA-T2-2 USPS

RESPONSE OF PARCEL SHIPPERS ASSOCIATION WITNESS JOHN McALPIN TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE (USPS/PSA-T2-1-2)

USPS/PSA-T2-1 Please refer to the table on page 5 of your testimony.

- (a) Please provide all the backup calculations and assumptions behind this table, including the weights of the pieces used, their zone distributions, and which rate schedules were used to derive the prices shown in the table.
- (b) Do any of the USPS prices shown in the table contain a PRS component? If so, please explain fully.
- (c) Do the UPS prices shown in the table include any charges for pickup? If so, please provide the pickup charges separately for each rate cell in the table and any underlying assumptions.

ANSWER

- (a) See **the** attached spreadsheet for the average zone and zone distribution of return packages for each retailer profile. Regarding rate schedules, each USPS price listed reflects the Merchandise Return Service (MRS) and assumes the Parcel Post Inter-BMC rate schedule from the January 8,2006 Notice **123** Ratefold.
- (b) No. The USPS prices reflect **MRS** rates (Parcel Post Inter-BMC) and do not include a PRS component.
- (c) No. The UPS prices do not include any charges far pickup.

USPS/PSA-T2-2 Please refer to the table on page 5 of your testimony and the List of various levels of UPS return service shown on pages 6 and 7. What level of UPS return service (from the list on pages 6 and 7) is represented by the UPS prices shown in the table on page 5? If the price shown in the table represents an average or composite of different service levels, please give the shares of each service level in the average or composite. If the service level varies by row in the table, please specify the service level shares for each row.

ANSWER

- (a) Each example in the table reflects the UPS Authorized Return Service (ARS) program. and does not reflect any extra services such as Pickup Attempts or Call-Tags.
- (b) Each UPS pricing example in the table reflects a single UPS service, the Authorized Return Service (ARS) program.

\$ASQAttachment_to_McAfun-348.XLS

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Dotailor	> General V	Date	Wr (lhs)	Zone	(8)	Service	price (\$)		(\$)	price	price	USPS Ratefold
A C C C	00404		3.8	4.8	\$ 3.60	ARS	\$ 5.50	\$ 0	6.52	32%	45%	Jan 08 2006
۲ 0	Cmall	20-70N	2 4	4 8	4 4.25		\$ 6.15	رح 4	6.89	31%	38%	Jan 08 2006
٥	Silian	200	2 0	3.6		4	¢ 4 39	4	5.43	70%	36%	Jan 08 2006
ار	rarge	20-10-0	2,4	20	4		4 4 2 2	4	4.90	17%	29%	Jan 08 2006
[2	Large	co-das	4.7	0 0	4		4	4	5 63	16%	200%	Jan 08 2006
ш	Small	Apr-06	6.7	4.7	4.00		4	•	3.5	201	2000	3000 00 00
L	Large	Apr-06	1.5	8,4	3.30	ARS	3.90	\$ 0	4.63	15%	0/267	Jan US ZUUD
۔ اُن	l arge	Mar-06	2.7	4.6	\$ 3.50	ARS	\$ 4.00	\$	5.19	13%	33%	Jan 08 2006

Assumptions

Average

\$ 4.79 \$ 5.60 21% 33%

\$ 3.74

4.8

2.9

Annual Return Package Volume: Large is > 1M returns; Medium is 200K to 1M returns; Small is <200K returns.
UPS Service: each example above includes the UPS Authorized Return Service (ARS), and does not include any charges for pickup.
USPS Rate Schedule: the rate schedules used are Parcel Post Inter-BMC, with effective dates listed above.
USPS Rate Schedule Effective Date: each USPS price reflects the January 8, 2006 Notice 123 Ratefold.

Zone Distribution				1	
A	В	ָיי	d.	电子子 工匠子	9
			1		
Average Zone	4.8	4.6	4.8		
	2%	2%	4%		
	11%	10%	16%		
	46%	38%	38%		
	10%	27%	16%		
	4%	11%	%9		
	1%	%9			
	21%	7%	18%		
	100%	100%	100%		

1	CHAIRMAN OMAS: Is there any additional
2	written cross-examination for Witness McAlpin?
3	(No response.)
4	There being none, Mr. May, would you now
5	assist us to receive the corrected version of Mr.
6	Glick's testimony into evidence?
7	MR. MAY: Yes. I move it into evidence.
8	CHAIRMAN OMAS: Is there any objection?
9	(No response.)
10	CHAIRMAN OMAS: Hearing none, Mr. May, would
11	you please provide two copies of the Corrected Direct
12	Testimony of Sander Glick. That testimony is received
13	into evidence, However, as is our practice, it will
14	not be transcribed.
15	(The document referred to was
16	marked for identification as
17	Exhibit No. PSA/Postcom-T-1,
18	and was received in
19	evidence.)
20	Keeping Mr. May busy this morning walking
21	around.
22	Mr. May, have the answers to the Designated
23	Written Cross-Examination been reviewed and corrected?
24	MR. MAY: It has. And Mr. Glick's
25	declaration of authenticity was filed yesterday as
	Haritaga Paparting Corporation

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1
      well.
 2
                 CHAIRMAN OMAS: Again, Mr. May, would you
      please provide two copies of the Designated Written
 3
      Cross-Examination of Witness Glick to the reporter.
 4
      That material is received into evidence and is to be
 5
      transcribed into the record.
 6
                                  (The document referred to was
7
                                 marked for identification as
 8
                                 Exhibit No. USPS/PSA/Postcom-
 9
                                 T1-2&3, Designated Written
10
                                 Cross-Examination of Witness
11
                                 Glick, and was received in
12
                                 evidence.)
13
                 Is there any additional written cross-
14
      examination for Witness Glick?
15
16
                  (No response.)
17
                 Thank you, Mr. May.
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RESPONSE OF PARCEL SHIPPERS ASSOCIATION/POSTCOM, EL AL, WITNESS SANDER GLICK TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE (USPS/PSA/POSTCOM-T1-2&3)

USPS/PSA-Postcom-T1-2 Please refer to page 6 of your testimony, lines 4-5. Please confirm that it is your understanding that the **Postal** Service did not rely on these anomalous unit cost data to develop its pricing. If you do not agree, please indicate where the Postal Service did rely on these *data* to develop prices.

ANSWER

Not confirmed. According to his testimony, the anomalous unit cost for First-class Mail Presort Parcels was used by Taufique (USPS-T-32 at 36) to develop rates for First-class Mail Business Parcels.

RESPONSE OF PARCEL SHIPPERS ASSOCIATION/POSTCOM, EL AL, WITNESS SANDER GLICKTO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE (USPS/PSA/POSTCOM-T1-2&3)

USPS/PSA-Postcom-T1-3 In **your** view, is the Standard Mail parcels category a workshared category of Standard Mail flats, or vice-versa?

ANSWER

I don't believe that Standard Mail parcels are a workshared category of Standard Mail flats **ar** that Standard Mail flats are a workshared category of Standard Mail parcels.

1	CHAIRMAN OMAS: Next I want to receive
2	evidence sponsored by the Association of Postal
3	Commerce. Ms. Brinkmann, Witness Angelides sponsored
4	two pieces of testimony. Please introduce them
5	separately starting with Postcom-T-5, please.
6	MS. BRINKMA": Than!? you, Mr. Chairman.
7	I have today with me two copies of Dr.
8	Angelides's testimony, Postcom-T-5. And he has no
9	corrections to his testimony at this time.
10	I also have two originals, an original and a
11	copy of his written declaration of authenticity with
12	me today.
13	I move that the Direct Testimony of Witness
14	Angelides be admitted into the record.
15	CHAIRMAN OMAS: Is there any objection?
16	(No response.)
17	CHAIRMAN OMAS: Hearing none, Ms. Brinkmann,
18	would you please provide the reporter with two copies
19	of the corrected direct testimony of Peter A.
20	Angelides. That testimony is received into evidence.
21	However, as is our practice, it will not be
22	transcribed.
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25	//

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1	(The docun nt referred to was	
2	marked for identification as	
3	Exhibit No. Postcom-T-5,	
4	Corrected Direct Testimony of	
5	Witness Peter A. Angelides,	
6	and was received in	
7	evidence.)	
8	Ms. Brinkmann, has the packet of Designated	
9	Written Cross-Examination been reviewed and corrected?	
10	MS. BRINKMA": Yes, Mr. Chairman. However,	
11	counsel for the Postal Service has something to add	
12	here.	
13	CHAIRMAN OMAS: Mr. Reiter?	
14	MR. REITER: Thank you, Mr. Chairman. I	
15	have two additional designations that I've shown to	
16	counsel. These were interrogatories that were	
17	redirected by Postcom to Witness Angelides. They are	
18	USPS Postcom-T-7, 12 and 13. And we'd like to have	
19	them designated together with those already in the	
20	packet.	
2 1	CHAIRMAN OMAS: Without objection.	
22	Counsel, would you please provide two copies	
23	of the Corrected Designated Written Cross-Examination	
24	of Witness Angelides to the reporter. That material	
25	is received into evidence and is to be transcribed	
	Haritage Depositing Corporation	

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1	into the record.	
2		(The document referred to was
3		marked for identification as
4		Exhibit No. Postcom-T-5,
5		Corrected Designated Written
6		Cross-Examination of Witness
7		Angelides, and was received
8		in evidence.)
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BEFORE THE POSTAL RATE COMMISSION WASHINGTON, DC 20268-9001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION OF ASSOCIATION FOR POSTAL COMMERCE WITNESS PETER A. ANGELIDES (PostCom-T-5)

<u>Party</u> <u>Interroaatories</u>

Amazon.com, Inc AMZ/PostCom-T5-1-6

USPS/PostCcm-T5-2

United States Postal Service USPS/PostCom-T5-1-2

Respectfully submitted.

Steven W. Williams

Secretary

INTERROGATORY RESPONSES OF ASSOCIATION FOR POSTAL COMMERCE WITNESS PETER A. ANGELIDES (T-5) DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interroaatory</u>	<u>Desianatina Parties</u>
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 AMZ/PostCom-T5-1
 Amazon

 AMZ/PostCom-T5-2
 Amazon

 AMZ/PostCom-T5-3
 Amazon

 AMZ/PostCom-T5-4
 Amazon

 AMZ/PostCom-T5-5
 Amazon

 AMZ/PostCom-T5-6
 Amazon

 USPS/PostCom-T5-1
 USPS

 NORD/PostCom-T5-1
 USPS

USPS/PostCom-T5-2 Amazon, USPS

AMZ/POSTCOM-T5-1. Please refer to your testimony at page 6, line 10, where you state "[t]herefore, I have prepared a rate design with a cost coverage of 100.2 percent." Also, please refer to footnote 1on page 3.

- a. Is your proposed coverage of 100.2 percent the coverage for Media Mail alone, or is it a combined coverage for Media Mail and Library Mail?
- b. If your proposed coverage of 100.2 percent is for Media Mail alone, and, if pursuant to 39 U.S.C§ 3626(a)(7), rates for Library Mail are set at 5 percent less than the rates for Media Mail, what is the coverage for Library Mail that would result from your recommended coverage and rate design for Media Mail?
- c. If your proposed coverage of 100.2 percent is a combined coverage for Media Mail and Library Mail, what is your proposed coverage for Library Mail alone and Media Mail alone?

RESPONSE:

- a. Combined.
- b. Not applicable.
- c. To my knowledge, costs for Media Mail and Library Mail are not available separately. Therefore the cost coverage can only be calculated for the combined products.

AMZ/POSTCOM-T5-2. Please refer to your testimony at page 8, lines 9-11, where you state "[b]ecause the prices are lower than in the USPS proposal, I used witness Thress's volume model at the new price to generate a new volume for Media Mail."

- a. What are the new Test Year Before Rates and Test Year After Rates volumes that would result from your proposed rates for Media Mail? Please show how you generated those new volumes.
- b. If you computed separate Test Year Before Rates and Test Year Afler Rates volumes for presort Media Mail and single piece Media Mail, please show each separately.
- c. Did you estimate a new Test Year Before Rates and/or Test Year After Rates volume for Library Mail? If so, please state what volumes you generated, and show their derivation.

RESPONSE:

a. I did not perform a new calculation of Test Year Before Rates volume.
The Test Year Before Rates volume for Media Mail is shown in witness Yeh's testimony.

The Test Year After Rates volume for Media Mail is 155,193,879. This volume was determined by the use of witness Thress's volume forecasting model. Please refer to Library Reference Postcom-LR-3, especially "MM and BPM Summary.xls", "Inputs" worksheet, and "vf-ar.xls".

- b. I did not calculate these volumes separately
- c. I did not perform a new calculation of Test Year Before Rates volume for Library Mail. The Test Year Before Rates volume for Library Mail is shown in witness Yeh's testimony.

The Test Year After Rates volume for Library Mail is 12,337,294. This volume was determined by the **use** of witness Thress's volume forecasting model. Please refer **to** Library Reference Postcom-LR-3, especially "MM and BPM Summary.xls", "Inputs" worksheet, and "vf-ar.xls".

AMZ/POSTCOM-T5-3. Please refer to your testimony at page 8 and the footnote to Table 4, which states that "[s]ingle piece remains billed in single pound increments at a rate of \$0.34 per pound for Media Mail and \$0.32 per pound for Library Mail."

- a. Is it correct to infer from this footnote that you propose to extend half-pound pricing (up to 5 pounds) to presort Media Mail, but not to single piece MediaMail? If this is not a correct interpretation of the footnote, please explain.
- b. If your answer to preceding part a is affirmative, please refer to your testimony at page 3, lines 5-6, and also to page 6, lines 12-15, and explain why you did not indicate in either place that your proposed half-pourid pricing does not apply to the 80 percent of Media Mail that is entered at single piece rates.
- c. If your answer to preceding part a is affirmative, please explain why you do not recommend half-pound pricing for single piece Media Mail.

RESPONSE:

- a. That is correct.
- b. On page 3, lines 5-6, I am introducing the concept of half pound pricing, but not discussing specifics. On page 6, lines 13, I indicate that the half-pound increments are for "presorted parcels."
- c. I have recommended retaining full-pound pricing for single piece Media

 Mail for simplicity and to minimize changes to the Fostal Service's rate proposals.

Full-pound pricing increments make the pricing structure of Media Mail easier to understand than if there were half-pound increments for some pounds. This simplicity is of more concern for single piece transactions, which often occur at the retail counter, than for presorted transactions.

In addition, I have recommended maintaining full-pound pricing for single piece Media Mail to keep the rate structure **for** single piece consistent with the Postal Service's proposal.

AMZ/POSTCOM-T5-4. Please refer to your testimony at page 8, lines 11-13, where you state "[b]ased on thenew volume, I used witness Yeh's model to calculate revenue, cost, and cost coverage." (Footnote omitted.)

- a. What are the Test Year Before Rates and Test Year After Rates revenues that you computed for Media Mail?
- b. If you computed revenues separately for presort and single piece Media Mail, please provide such revenues for each, and show how you computed postage pounds for all Media Mail subject to half-pound pricing under your proposed rate design. If you did not compute revenues separately, please state why not, in view of your proposed half-pound pricing for presort Media Mail.

RESPONSE:

a. I did not perform a new calculation of Test Year Before Rates revenue. The Test Year Before Rates revenue for Media Mail is shown in witness Yeh's testimony.

The Test Year After Rates revenue for Media Mail and Library Mail is 5390,814,371.

b. I did not calculate these revenues directly. I calculated the Test Year After Rates ("TYAR) average price for all pieces shipped via Media Mail, and multiplied by TYAR volume for all pieces shipped via Media Mail to determine TYAR revenue. I determined TYAR average price using witness Yeh's model, modified to account for half-pound pricing increments for presorted parcels, as discussed below.

However, these revenues may be calculated from my Library References.

Please refer to the "MM Rev 8-10-06 R2006_USPS-LR-L-41 - Rate design half pound.xls" workbook, "TYAR" worksheet. TYAR Revenue for presorted Media

Mail and Library Mail is \$60,749,195. NAR Revenue for single piece Media Mail and Library Mail is \$329,522,677.

For the calculation of postage pounds, please refer to Library reference Postcom-LR-3, "MM Rev 8-10-06 R2006_USPS-LR-L-41 - Rate design half pound.xls" workbook, "Average weight", "half pound reduction", and "Calc of first half lb percent" worksheets.

The "Average weight" worksheet calculates the average weight of a presorted parcel for the weight bands of "Not more than 1.0 pound", "More than 1.0 pound , not more than 7.0 pounds", and "More than 7.0 pounds". based on numbers from witness Yeh's model. The "Calc of first half lb percent" worksheet calculates the percentage of parcels shipped by Media Mail with an odd number of postal half pounds. For example, a parcel that weighs 1.2 pounds has 3 half pounds, and a parcel that weighs 1.7 pounds has 4 half pounds. The "half pound reduction" worksheet calculates the percentage of packages in each half pound weight band between 1.0 and 7.0 pounds, and determines the ratio of half pounds to full pounds for use in the average price calculation.

AMZ/POSTCOM-T5-5. Please refer to your testimony at page 12, lines 9-11, where you state "[b]ecause the prices are lower than in the USPS proposal, I used witness Thress's volume model at the new price to generate a new volume for BPM."

- a. What are the new Test Year Before Rates and Test Year After Rates volumes that would result from your proposed rates for BPM? Please show how you generated those new volumes.
- b. If you computed separate Test Year Before Rates and Test Year After Rates volumes for presort BPM and single piece BPM, please show each separately.

RESPONSE:

a. I did not perform a new calculation of Test Year Before Rates volume.
The Test Year Before Rates volume for BPM is shown in witness Yeh's testimony.

The Test Year After Rates volume for BPM is 558,858,244. This volume was determined by the use of witness Thress's volume forecasting model.

Please refer to Library Reference Postcom-LR-3, especially "MM and BPM Summary.xls", "Inputs" worksheet, and "vf-ar.xls".

b. These volumes were not calculated separately.

AMZ/POSTCOM-T5-6. Please refer to your testimony at page **12**, lines 8-9, where you state "[t]o calculate the new cost coverage, I used witness Yeh's model, modified as described above...." Please describe fully how you used witness Yeh's model to calculate your new cost coverage for BPM.

RESPONSE:

I used witness Yeh's model to determine revenue per piece (average price). I used witness Thress's volume forecasting model to determine the TYAR volume based on this average price. Revenue is the average price times the volume

Witness Yeh's model provides costs for before rates volumes and after rates volumes. I used these cost to calculate an estimate of the per unit cost of BPM for each volume, and applied this estimate to the TYAR volume under the new price to calculate Costs. Please refer to "MM and BPM Summary.xls", "BPM Costs" worksheet.

I then calculated the cost coverage from the Revenue and Cost described above.

RESPONSES **OF** POSTCOM WITNESS ANGELIDES TO INTERROGATORIES **OF** THE UNITED STATES POSTAL SERVICE

USPS/POSTCOM-T5-1. Please refer to lines 20-23 on page **6** of your testimony, where he contends that a 1.1 pound package weighing **45** percent less than a 2.0 pound package pays the same postage.

- (a) Please calculate the difference in costs for the two packages.
- (b) If you cannot provide the calculation, please explain why.

RESPONSE:

These questions are unclear. However, as I am interpreting the questions, my answer is as follows:

(a) and **(b).** Examination of costs that vary by weight for Media Mail and Library Mail was outside the scope of my analysis.

RESPONSES OF POSTCOMWITNESS ANGELIDES TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/POSTCOM-T5-2. Please provide a financial summary including volume, cost, revenue, cost coverage, cost per piece, revenue per piece, and contribution per piece for Test Year After Rates using the rate design and cost coverage you proposed for Media Mail and Library Mail.

RESPONSE:

Please refer to Postcom-LR-3, "MM and BPM Summary.xls", "Inputs" worksheet. For convenience, also see the below table. Consistent with the testimony of USPS witness Yeh, costs, and all calculations that depend on costs, are presented only for the combination of Media Mail and Library Mail. The cost information for Media Mail and Library Mail is based on numbers from witness Yeh

	Media Mail	Library Mail	
Volume	155,193,879	12,337,294	
Revenue	\$362,265,201	\$28,549,171	
Revenue per Piece	\$2.3343	\$2.3141	
cost	\$390,086,469		
Cost Coverage 100.2%		.2%	
Contribution \$727,902		7,902	
Contribution per Piece	\$3.0043		

RESPONSES OF POSTCOM WITNESS ANGELIDES TO REDIRECTED INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/POSTCOM-T7-12. Please refer to your testimony at page 8, lines 20-21 where you note that the "Media Mail shipment consisting of 5 CDs and weighing 1.3 pounds is charged as if it weighed 2 pounds."

Please confirm that in the revenue calculations performed by Postal witness Yeh, aggregate Media Mail revenue was also calculated in this manner. If you do not confirm, please explain.

resi	PON	ISE:
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Confirmed.

RESPONSES OF POSTCOM WITNESS ANGELIDES TO REDIRECTED INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/POSTCOM-T7-13. Please refer to your testimony at page 9, lines 1-3 where you indicate that your postage bill has increased by nearly 30%.

- a. Please confirm that, under USPS methodology, the cost coverage for Media Mail in FY 2005 was 90.85%. If you do not confirm, please provide the correct figure.
- b. Please confirm that, under USPS methodology, the cost coverage for Media Mail in FY 2004 was 100.8%. If you do not confirm, please provide the correct figure.
- c. Please confirm that, under USPS methodology, the cost coverage for Media Mail in FY 2003 was 106.33%. If you do not confirm, please provide the correct figure.
- d. Please confirm that, under USPS methodology, the cost coverage for Media Mail in FY 2002 was 96.23%. If you do not confirm, please provide the correct figure.
- e. Please confirm that. under USPS methodology, the cost coverage for Media Mail in FY 2001 was 101.44%. If you do not confirm, please provide the correct figure.

RESPONSE:

a. - e. The cost coverages for Media Mail presented in these questions agree with the cost coverages presented in the USPS Cost and Revenue Analyses for FY2001 - FY2005.

POSTAL RATE COMMISSION DOCKET NO. R2006-1 DECLARATION OF PETER A. ANGELIDES

I hereby declare, under penalty of perjury, that:

I prepared the responses to interrogatories which were filed under my name and which have been designated for inclusion in the record in this docket; and

If I were to respond to these interrogatories orally today, the responses would be the same.

ETER A. ANGELIDES

DATE 31 October 2006

MS. BRINKMA": Okay, Mr. Chairman, I am 1 2 including the two questions for two additional 3 redirected questions in the packet for Postcom-T-5. And I just note it here because the designations of 4 5 the Secretary on the cover page don't indicate those particular two. 6 7 CHAIRMAN OMAS: okay. 8 MR MAY: Thank you. 9 CHAIRMAN OMAS: Thank you. 10 Again, Ms. Brinkmann, would you please proceed to your next piece of testimony? 11 12 MS, BRINKMA": Yes, Mr. Chairman. The second set of Dr. Angelides's testimony 13 14 is Postcom-T-4. I have two copies of that testimony 15 here today, also with an original and a copy of his executed declaration of authenticity. And I move that 16 17 the Direct Testimony of Dr. Angelides be admitted into the record. 18 CHAIRMAN OMAS: Is there any objection? 19 20 (No response.) Hearing none, Ms. Brinkmann, 21 CHAIRMAN OMAS: would you please provide two copies of the Corrected 2.2 Direct Testimony of Peter A. Angelides. 23 24 testimony is received into evidence. However, as is our practice, it will not be transcribed. 25

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1	(The document referred to was			
2	marked for identification as			
3	Exhibit No. Postcom-T-4,			
4	Corrected Direct Testimony of			
5	Witness Peter A. Angelides,			
6	and was received in			
7	evidence.)			
8	Ms. Brinkmann, has the packet of Designated			
9	Written Cross-Examination been reviewed and corrected?			
10	MS. BRINKMA": Yes, they have. And I have			
11	two copies			
12	CHAIRMAN OMAS: Would you please provide two			
13	copies of the Corrected Designated Written Cross-			
14	Examination of Witness Angelides to the reporter.			
15	That material is received into evidence and it is to			
16	be transcribed into the record			
17	(The document referred to was			
18	marked €or identification as			
19	Exhibit No. Postcom-T-4,			
20	Corrected Designated Written			
21	Cross-Examination of Witness			
22	Peter A . Angelides, and was			
23	received in evidence.)			
24	MS, BRINKMA": Thank you.			
25	CHAIRMAN OMAS: Thank you, Ms. Brinkmann,			
	Heritage Reporting Corporation (202) 628-4888			

BEFORE THE POSTAL RATE COMMISSION WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION OF ASSOCIATION FOR POSTAL COMMERCE WITNESS PETER A. ANGELIDES (PostCom-T-4)

<u>Interroaatories</u>

United States Postal Service

USPS/PostCom-T4-1-4

Respectfully submitted,

Steven W. Williams

Secretary

INTERROGATORY RESPONSES OF ASSOCIATION FOR POSTAL COMMERCE WITNESS PETER A. ANGELIDES (T-4) DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
USPS/PostCom-T4-1	USPS
USPS/PostCom-T4-2	USPS
USPS/PostCom-T4-3	USPS
USPS/PostCom-T4-4	USPS

RESPONSES OF POSTCOMWITNESS ANGELIDES TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/POSTCOM-T4-1 Please refer to Table 3 on page 10 of your testimony.

- (a) Please confirm that your table shows that, without a price increase, Standard Mail Regular parcels would fail to cover their costs by more than \$126 million.
- (b) Please confirm that your table shows that, with the Postal Service's proposed price increases and with the assumption that Standard Mail Regular parcels have an own-price elasticity that is the same as Parcel Post's elasticity (-1.399), Standard Mail parcels would make a positive contribution toward the Postal Service's institutional costs.

RESPONSE:

- (a) Given the inputs to Table 3 on page 10, the calculated contribution to institutional costs is -\$126,501,887. The contribution, which is presented for illustrative purposes, is calculated assuming a unit cost for Standard Parcels of \$0.9912, which is a number taken from witness Talmo (USPS-LR-L-135). However, I understand that the unit cost for Standard Parcels is in dispute in this proceeding. It is not my testimony that \$0.9912 per unit for Standard parcels is the correct cost. If the unit cost for Standard Parcels is not \$0.9912, then, all else being equal, the contribution to institutional cost shown on Table 3 will not be -\$126,501,887.
- (b) Given the inputs to Table 3 on page 10, the calculated contribution to institutional costs is \$42,679,620. As discussed above, the contribution, which is presented *for* illustrative purposes, *is* calculated assuming witness Talmo's unit cost for Standard Parcels of \$0.9912. If the unit cost for Standard Parcels is not

RESPONSES OF POSTCOMWITNESS ANGELIDES TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

\$0.9912, the contribution to institutional cost shown on Table 3 **will** not be \$42,679,620.

RESPONSES OF POSTCOM WITNESS ANGELIDES TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/POSTCOM-T4-2 Please refer to page 6 your testimony, where you quote witness **Kiefer's** testimony and then assert: "[t]his indicates that the Postal Service considers Standard parcels to be similar in many respects to Parcel Post."

- (a) Please explain whether it is your assertion that, if the Postal Service desires to merge Standard Mail parcels with Parcel Post parcels, it means that the Postal Service believes that the two parcel groups have the same own-price elasticity?
- (b) Please explain whether it is your assertion that, if mail pieces are "similar in many respects," including own-price elasticity, they should be in the same subclass?

RESPONSE:

- (a) I do not know whether the Postal Service believes the two parcel groups have the same own-price elasticity.
- (b) It is not my assertion that "if mail pieces are 'similar in many respects,' including own-price elasticity, they should be in the same subclass."

RESPONSES OF POSTCOM WITNESS ANGELIDES TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/POSTCOM-T4-3 Please refer to page 7 your testimony, where you describe the options that parcels mailers have to ship via a private carrier instead of using the Postal Service, although these options are "more expensive."

- (a) In your view, would the price increases proposed by the Postal Service make a typical Standard Mail parcel mailed from a mail order business to a home address more expensive than the same parcel shipped via a private carrier? Please explain your answer.
- (b) If your response to the previous question is negative, would your view change if the Standard Mail parcel also included electronic Delivery Confirmation? Please explain your answer.

RESPONSE:

These questions are vague. However, as I am interpreting the questions, my answer is **as** follows:

(a-b) I have not undertaken a full study of private carrier rates compared to the Postal Service's rates, or of Postal Service and private carrier ancillary services. However, all else being equal, if the price increase proposed by the Postal Service were implemented, then shipping via the Postal Service would become more expensive relative to private carrier rates than it was prior to the price increase

RESPONSES OF POSTCOM WITNESS ANGELIDES TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/POSTCOM-T4-4. Please refer to page 7 of you testimony, where you have a section entitled "Standard Parcels Have Non-Postal Service Alternatives."

- (a) Is it your contention that Standard Letters and Flats do not have nonpostal alternatives, or that those alternatives do not exert as much upward pressure on the own price elasticity of those categories (in absolute terms) as the alternatives for parcels identified in your testimony do with regard to the own price elasticity for parcels? Please explain fully.
- (b) With respect to the parcel alternatives you identify on page 7, are you aware of any national private carrier of parcels that offers a published rate schedule specifically for parcels (other than expedited parcels) weighing less than one pound, such that parcels of different weights under one pound (e.g., 4 ounces, 8 ounces, 12 ounces) pay different rates? If so, please identify such carriers. If not, does this fact suggest that the effect of the theoretical alternative created by the existence of these shippers is likely to be much smaller empirically with respect to parcels under one pound, compared with the parcels over one pound that constitute the bulk of Destination Entry Parcel Post, for which those private shippers compete vigorously? Please explain your answers fully.
- (c) With respect to your footnote 10 on page 7; would you agree that for any shipper with the option of sending its CDs or DVDs electronically, the cost advantages to them of choosing that alternative are already such that any increase in postal price, by itself, is unlikely to cause much additional switching to available electronic options? If not, why not? If you agree. would you further agree that the effect of the availability of these electronic options is therefore unlikely to have much of an empirical effect on the own-price elasticity of Standard Parcels? If not, why not.

RESPONSE:

- (a) I have not offered testimony regarding non-postal alternatives to Standard Letters and Flats. I have not investigated the elasticity of Standard Letters and Flats with respect to non-postal alternatives.
- (b) I have not conducted a full analysis of the rate schedules of national private carriers of parcels. However, I am not currently aware of any carrier that offers a published rate schedule specifically for parcels (other than expedited

RESPONSES OF POSTCOM WITNESS ANGELIDES TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

parcels) weighing less than one pound, such that parcels of different weights under one pound (e.g., 4 ounces, 8 ounces, 12 ounces) pay different rates.

The wording of the remainder of this part is extremely confusing. Also, it is not clear what "shippers" the question is referring to in the seventh line of the question. However, as I interpret the question, I have not seen sufficient evidence regarding the elasticity of parcels under one pound to make a determination regarding the effect of potential alternative carriers on the elasticity of these parcels relative to the effect of potential alternative carriers on the elasticity of parcels over one pound. I am not aware of evidence from the Postal Service that would be sufficient to form the basis for such a determination.

(c) I do not agree. I have not conducted an investigation into the specific cost advantages of delivering CD or DVD content electronically.

POSTAL RATE COMMISSION DOCKET NO. R2006-1 DECLARATION OF PETER A. ANGELIDES

I hereby declare, under penalty of perjury, that:

I prepared the responses to interrogatories which were filed under **my** name and which have been designated for inclusion in the record in **this** docket; and

If I were **to** respond *to* these interrogatories orally today, the responses would be the same.

PETER A. ANGELIDES

DATE 31 October 2006

1	CHAIRMAN OMAS: And we'll proceed now. Our				
2	next witness is already under oath in this proceeding.				
3	Mr. Miles, would you please proceed?				
4	MR. MILES: Thank you, Mr. Chairman.				
5	Dr. Haldi was scheduled for cross-				
6	examination by the Postal Service but the Postal				
7	Service counsel alerted us yesterday that they would				
8	have no questions. We advised Dr. Haldi in accordance				
9	with Commission protocol that his actual appearance				
10	today would not be necessary.				
11	So I have copies of his testimony.				
12	CHAIRMAN OMAS: Yes. Would you like to				
13	introduce them into evidence please?				
14	MR. MILES: Thank you. Mr. Chairman,				
15	CHAIRMAN OMAS: Just a moment.				
16	(Pause)				
17	CHAIRMAN OMAS: You know, I guess I'm going				
18	to have to start making announcements. Please turn				
19	off all cell phones.				
20	I'm sorry, Mr. Miles, would you proceed?				
21	MR. MILES: Thank you, Mr. Chairman.				
22	This is a draft of John Haldi's direct				
23	testimony. And on page 15, line 7 and line 17, the				
24	figure 6.75 should be replaced by 6.00. And on page 8				
25	the fraction 1/4th should be replaced by 1/5th.				

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1	And with those three edits Dr. Haldi's
2	testimony is as originally submitted and I would move
3	it into evidence.
4	CHAIRMAN OMAS: Is there any objection?
5	(No response.)
6	CHAIRMAN OMAS: Hearing none, Mr. Miles,
7	would you please provide the reporter with two copies
8	of the Corrected Direct Testimony of John Haldi. That
9	testimony is received into evidence. However, as is
10	our practice, it will not be transcribed.
11	(The document referred to was
12	marked for identification as
13	Exhibit No. AMZ-T-1,
14	Corrected Direct Testimony of
15	Witness John Haldi, and was
16	received in evidence.)
17	Mr. Miles, has the packet of Designated
18	Written Cross-Examination been reviewed and corrected?
19	MR MILES: Yes, Mr Chairman, it has.
20	CHAIRMAN OMAS: Would you then please
21	provide two copies of the Corrected Designated Written
22	Cross-Examination of Witness Haldi to the reporter.
23	That material is received into evidence and is to be
24	transcribed into the record.
25	//

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1		(The document referred to was
2		marked for identification as
3		Exhibit No. AMZ-T-1,
4		Corrected Designated Written
5		Cross-Etamination of Witness
6		Haldi, and was received in
7		evidence.)
8		Thank you, Mr. Miles.
9	//	
10	//	
11	//	
12	//	
13	//	
14	//	
15	//	
16	//	
17	//	
18	//	
19	//	
20	//	
21	//	
22	//	
23	//	
24	//	
25	//	

BEFORE THE POSTAL RATE COMMISSION WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION OF AMAZON.COM. INC. WITNESS JOHN HALD! (AMZ-T-1)

<u>Party</u> <u>Interrogatories</u>

United States Postal Service USPSIAMZ-TI-1-18

Respectfully submitted.

to wallow

Steven W. Williams

Secretary

INTERROGATORY RESPONSES OF AMAZON.COM, INC. WITNESS JOHN HALDI (T-1) DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interroaatory	Desianatina Parties
USPSIAMZ-TI-1	USPS
USPSIAMZ-TI-2	USPS
USPSIAMZ-TI-3	USPS
USPSIAMZ-TI-4	USPS
USPSIAMZ-TI-5	USPS
USPS/AMZ-T1-6	USPS
USPSIAMZ-TI-7	USPS
USPSIAMZ-TI-8	USPS
USPSIAMZ-TI-9	USPS
USPSIAMZ-TI-10	USPS
USPSIAMZ-TI-11	USPS
USPSIAMZ-T1-12	USPS
USPS/AMZ-T1-13	USPS
USPSIAMZ-TI-14	USPS
USPSIAMZ-TI-15	USPS
USPSIAMZ-TI-16	USPS
USPSIAMZ-TI-17	USPS
USPSIAMZ-TI-10	USPS

USPS/AMZ-T1-1.

Please refer to your testimony at page **5**, lines 15-17. Please explain fully how, for non-expedited packages, Amazon determines which subclass to use.

Resuonse:

I am advised that Amazon.com's selection of mail subclass is based on providing the best value to the end customer. The principal variables incorporated into the selection process are content/mailing restrictions, cost, and transit-time.

USPS/AMZ-T1-2.

Please refer to your testimony at page 6, lines 1-5.

- a. Does your proposal to allow books and closely related items that are published in an "electronic format" to be mailed at Bound Printed Matter rates include magnetic tapes such as cassettes and VHS as well as CDs and DVDs? Please explain your reasoning fully, including your definition of "electronic format."
- b. With reference to the additional information in your Appendix III as well, does your proposal also apply to legacy forms of sound recordings, such as records, record albums, and reel-to-reel tapes? Please explain your reasoning fully.

Response:

- a. Yes. My proposal takes the focus off of format. Just as I see no sound reason for distinguishing between material that is in an electronic format and the same or similar material in a printed and bound book, I see no reason to attempt to distinguish between a book on a CD (or DVD) or one on a magnetic tape, such as VHS (which is becoming obsolete as a new product offering). Further, implementation of my proposal should allow for the fact that the forms of electronic or magnetic storage are subject to ongoing evolution; for examples, see my response to USPS/AMZ-T1-15.
- b. My personal opinion is that legacy forms of sound recordings, such as records, record albums and reel-tercel tapes should be included (for simplicity and ease of administration), provided, of course, that (i) they are part of a bulk mailing consisting **of** at least 300 pieces that qualify for

BPM, and (ii) each package weighs less than 15 pounds. As legacy forms are somewhat obsolete by standards of existing and evolving technology, I would not foresee many shipments involving legacy formats. More important is that the proposal allow for evolving formats, and not be restricted to existing formats, as discussed in my response to part a. See my response to USPS/AMZ-T1-18 for proposed alternative DMCS language that would leave final determination to the Postal Service.

USPS/AMZ-T1-3.

Please refer to lines 4-8 on page 8 of your testimony.

- a. Please define "closely related to books."
- b. Please provide the percentage of movies that are "closely related to books."
- c. If CDs and DVDs closely related to books would qualify for Bound Printed Matter rates under your proposal, is it your proposal that CDs and DVDs not closely related to books will not qualify for Bound Printed Matter rates? If so, how can the Postal Service distinguish between those CDs and/or DVDs that are closely related to books and those that are not? If not, what is the purpose of the "closely related to books" criterion?

Response:

Please note that my testimony on page 8 does not use the phrase "closely related to books." It does, however, discuss situations where "contents of the book and the movie obviously have a close relationship."

- a. Movies with a close relationship to a book are those that use the plot, the story line, the characters, and perhaps even the title of the book. Such movies typically try to attract readers of the **book** as part of the initial audience. Examples are numerous, and readily available; see Appendix III of my testimony.
- b. I do not have available to me the means to determine the approximate percentage of movies that are based on published books **or** plays, as opposed to original screenplays.
- c. The proposal contained in Appendix II of my testimony would enable all

CDs and DVDs to qualify. My response to USPS/VP-T1-18 sets out an alternative which would leave to the Postal Service the determination of which CDs and DVDs would qualify. If only those CDs and DVDs related to books qualify, then I would note that since books are published and subject to copyright, material based on a book generally contains an acknowledgment. For example, the musical My Fair Lady was based on George Bernard Shaw's book, *Pygmalion*, even though George Bernard Shaw never wrote any music, and the book itself did not contain any songs. Consequently, material accompanying recordings of My Fair **Lady** (e.g., cover jackets) and DVDs of the movie both contained an acknowledgment to *Pygmalion*. In other words, it should be possible to distinguish between (i) a tape, CD, or DVD which acknowledges a published book as all or part of its source, and (ii) a tape or CD containing only music with no source, such as a book or play. Second, I note that from 1976 to 1990 the Postal Service somehow was able to distinguish between a book with advertising and a book without advertising, even though a book with advertising that was submitted as BPM might have been boxed or wrapped, and otherwise indistinguishable from the same book without advertising and when boxed and submitted as media mail.

USPS/AMZ-T1-4.

Please refer to your testimony at page 8, lines 8-11.

- a. Please provide the physical dimensions and the average weight of Amazon's boxes containing "a book."
- b. Please provide the physical dimensions and average weight of a box containing a "closely related" CD or **DVD**.
- c. Please provide the same information for audio tapes and VHS tapes, if they are included within your proposal.

Response:

- a. The average weight of Amazon.com packages containing "a book" is between one and two pounds. Many books are sent in variable depth folders which conform to the book's dimensions, and therefore the dimensions are slightly larger than the size of the book, which could be of almost any size. Larger books (or multiple books) may be mailed in boxes with dimensions of 9" x 12" x 4" (432 cubic inches) or larger.

 Also see my response to USPS/AMZ-T1-7.
- b. Amazon.com packages containing a "closely related" **CD** or DVD sent via Media Mail generally are entered at the two-pound rate; see response to USPS/AMZ-T-7. CDs and DVDs shipped by Amamn.com are mailed using flexible packaging known as Levimatic. Some of the most commonly used sizes for CDs and **DVDs** are as follows:

Response of Amazon.com witness John Haldi to Interrogatory of the U.S. Postal Service

Description	Length (inches)	Width (inches)	Depth (inches)	Cube (inches³)
BL1	5.750	5.000	0.500	14.375
BL4	7.500	5.400	0.600	24.300
BL2	5.750	5.000	1.000	28.750
BL3	5.750	5.000	1.500	43.125
BL5	7.500	5.400	1.200	48.600
BL7	7.500	5.400	2.12s	86.063

Levimatic packages with the greater depths shown above are used for shipments containing multiple CDs/DvDs. Also see my response to USPS/AMZ-T1-7.

c. I am advised that Amazon.com no longer stocks audio and VHS tapes.

For this diminishing part of the market, packages containing a single audio tape or VHS tape likely would be entered at the one- or two-pound rate.

USPS/AMZ-T1-5.

Do you believe that books, with or without advertising, are "closely related" to catalogs weighing more than a pound, in the way that you believe some **DVDs** and CDs are "closely related" to books?

Response:

No, I do not believe that books, either with or without advenising, are closely related to catalogs that weigh more than one pound. That is one reason why, at page 10 of my testimony, I described the **BPM** subclass as "no longer homogeneous (from the perspective of catalog mailers)." **Cre** difference, obviously, is that recipients who receive mailed books typically have solicited (*i.e.*, "ordered" or "purchased") the book, whereas catalogs are typically mailed as unsolicited matter.

USPS/AMZ-T1-6,

What is the basis for your belief that the non-homogeneous Bound Printed Matter subclass containing both books and heavy catalogs has been successful for both the mailers and the Postal Service? Please include in your answer an explanation of the underlying causes of the success.

Response:

One way to measure success is by the extent to which mailers use the subclass; see Postal Service witness Yeh's response to AMZ/USPS-T38-25(b), Tr. 8/1933.

According to Postal Service library reference USPS-LR-L-74, in 1976 the volume of BPM was 75 million pieces, at which time books with advertising were first allowed to be mailed at BPM rates. By 1990, when books without advertising were first allowed to be mailed at BPM rates, the volume had grown to 345 million pieces. By 2005, the volume of BPM was 584 million pieces, a further increase in volume of 239 million pieces since 1990. This growth in usage can be interpreted as evidence that the subclass has been successful for mailers.

To the extent that the volume growth in BPM consists of books, it likely represents migration from Media Mail (formerly Fourth Class special rate), which is the subclass in which books most likely would have been mailed. In most years since 1976, the markup on Media Mail has been 6.0 percent or less, while the markup on BPM has been in a somewhat higher range, from 13.1 to as much as 74.0 percent (see Docket No. R2005-1, *Opinion and Recommended Decision*, Appendix *G*, Schedule 3). Having the volume in the BPM subclass with a somewhat higher average markup makes

it more successful for the Postal Service than would be the case if the same volume were in a subclass with a much lower markup.

Demand for delivery service is a derived demand. Or, as Postal Service witness Thress, USPS-T-7, page 187, lines 6-7, says, "[t]he demand for package delivery services will be largely driven by the demand for the goods being delivered." In the case of BPM, which is a content-restricted subclass, success is due largely to the demand for books that have been purchased via the Internet, book clubs, or from catalogs. Many people apparently have found purchasing books via the Internet to be not only more convenient but also less expensive. I note that this is one instance where the Internet is building postal volume rather than eroding it. (The BPM demand equation used by witness Thress incorporates as an independent variable Mail Order Retail Sales, which include far more than just books, but which may be regarded as a proxy for book demand.) **On** a personal level, I have heard favorable comments about book reviews that are available online. That said, success of the BPM subclass also is due to the plethora of worksharing options that have resulted from successful rate deaveraging, and the lower rates that mailers can obtain through worksharing in comparison to Media Mail rates.

9386

Response of Amazon.com witness John Haldi to Interrogatory of the U.S. Postal Service

USPS/AMZ-T1-7.

Please refer to your testimony at page 10, line 20. What is the approximate range of weights of the books (not the packages) that Amazon mails? What is the approximate range of weights of CDs containing those books? Does it differ from the range of weights of all CDs and DVDs that Amazon mails, regardless of their content? If so, please provide that range and explain the reason for the differences.

Response:

I am advised of the following: The weight of books ranges from a few ounces

(e.g., paperbacks) to as much as 3 pounds (e.g., large hardcover books), and a small

percentage weigh more than 3 pounds. The approximate weight distribution of

packages containing books is as follows (note: this distribution reflects postage pounds,

and some packages may contain more than one book):

0-2 lbs.: 67%

2-3 Ibs.: 18%

3-5 lbs.: 11%

>5 Ibs.: 4%

The weight of a CD/DVD containing a book, when boxed and ready for

shipment, does not exceed two pounds. The weight profile of books on CDs/DVDs is

similar to that of regular CDsIDVDs. The approximate weight distribution of

CDs/DVDs is as follows (note: this distribution reflects postage pounds, and some

packages may contain more than one CDIDVD):

0-1 lbs. 44%

1-2 lbs.: **43**%

> 2 Ibs.: 13%

USPS/AMZ-T1-8.

Please explain your understanding of the differences in postal cost-causing characteristics among the following three hypothetical pieces, all mailed with **299** other identical pieces: (1) a 3-pound shrink-wrapped catalog measuring **9"x 12"x** 4"; **(2)** a box containing a book, with the same total weight and cube; (3) the piece you described in response to USPSIAMZ-TI-4 containing a "closely related" CD or DVD.

Resuonse:

The cost-causing characteristics recognized in the BPM rate structure are

(i) degree of presort, (ii) point of entry, (iii) distance (zone) to final address, and

(iv) weight. Since the interrogatory stipulates the same number of pieces (*i.e.*, 300) for all three mailings, I will assume that (1) all three mailings are (hypothetically, of course) to the same addresses, (2) they have the same degree of presort, (3) they are entered at the same facility (unlikely to be a DDU with only 300 pieces), and (4) they must travel the same distance to the final address. Under these assumptions, in terms of cost-causing characteristics, the principal differences between the three mailings are weight and cube. The 300 catalogs and books, each weighing 3 pounds and, with the specified dimensions, would have a total weight of 900 pounds, and a total cube of 75 ft.³ With respect to the 300 packages containing a "closely related" CD or DVD, Amazon.com would mail them using Levimatic packaging described in my response to USPS/VP-T1-4, and they would have an average weight of about 1.5 pounds, a total weight of about 450 pounds, and a total cube of 2.5 to 5.0 ft.'

Thus, in the three mailings which your question asks me to compare, weight of the CDs/DVDs likely would be no more than 50 percent of the weight of the

catalogs/books, and the cubic space occupied by the 300 CD/DVD packages would be about 4 to 7 percent of that occupied by the larger and heavier catalogs/books.

To the extent that the cost of weight is fully and appropriately recognized in the rate structure, the 300 CDs/DVDs would weigh less, cost less, and pay less than rhe 300 catalogs/books. To the extent that the 2 cents per pound for non-transportation cost related to weight does not adequately reflect the cost of weight (see my response to USPS/AMZ-T1-17 for more discussion on this point), the heavier catalogs/books would cost disproportionately more than the CDs/DVDs.

With respect to cube, it is not recognized as an independent cost-causing factor in the rate structure, and I am not aware of any record evidence in this docket that shows the effect of cube on cost. There may not be a measurable relationship between cube and cost. I would note, though, that small packages containing CDsIDVDs will fit into mail boxes more readily than larger boxes centaining books. If any such relationship exists between cube and cost, it would seem entirely reasonable to expect that increases in cube will cause some increase in cost — i.e., I would not expect an increase in cube to result in a decrease in cost. Thus, the dramatically lower cube of 300 packages containing electronic media should result in unit handling and delivery costs that are equal to or lower than the unit handling and delivery costs of the 300 catalogs/books.

USPS/AMZ-T1-9.

Please refer to your testimony at page 13, lines 15-18. Are you referring to books with advertising, books without advertising. or both? What years' cost data underlie your conclusion?

Response:

The answer to your first interrogatory is that my reference is to books generally, both those with advertising and those without advertising. As the amount of advertising previously contained in books mailed at BPM rate was relatively small, and usually just sufficient to satisfy the Postal Service requirement for BPM, inclusion of advertising probably did not increase the weight or unit cost by a measurable amount, and elimination of the advertising requirement (along with deletion of the advertising itself) probably did not decrease unit cost by a measurable amount.

With respect to your second interrogatory concerning costs, any comparison of costs before and after books were allowed into the RPM subclass must necessarily refer to costs prior to and after 1976, when books were first permitted to be mailed in BPM. I would hasten to add, however, that before further de-averaging was put into effect, unit costs for various categories within BPM were creeping up and, consequently, the cost (and rates for "low-cost" mailers) also were creeping up. The Commission, in its *Opinion and Recommended Decision* in Docket No. R2000-1, noted that "books and catalogs may exhibit different cost characteristics. For example, catalogs may be entered into the system more deeply and, on average, weigh less per piece." (p. 502, para. 5881.) The Commission went on to state (p. 503, para. 5882) that:

Concerns were raised then [in Docket No. R90-1] that the inclusion of books would cause an increase in BPM unit costs. Over time, notwithstanding contentions that migration already had occurred and that book mailers would embrace worksharing, unit costs have increased. The specific causes for these rising unit costs are not successfully documented in this record. As a consequence, the low costs that made migration to BPM initially attractive are less beneficial. Rates for BPM are still substantially lower than the rates for Special (now Media) Mail; however, they apparently now more accurately reflect the impact of the migration of books into the subclass. [Emphasis added.]

The Commission further noted (p. 504, para. 5885) that:

in Docket R90-1, the Commission recommended a separate rate category be established for BPM catalogs. PRC Op. R90-1, para. 6510. The Governors rejected the proposed classification change. Decision of the Governors, R90-1 (January 22, 1991) & 4-5. At a minimum, the Commission encourages the Postal Service to study the distinct cost characteristics of book and catalogs mailed as BPM. [Emphasis added.]

In Docket No. R2000-1, the Postal Service proposed destination entry rates, including rates for DDU entry. To the extent that mailings of catalogs often have sufficient density to enable them to be entered at DDUs, and mailings of books do not have such density, this de-averaging of rates provided a way for the rate structure to recognize a unique cost-causing characteristic of catalogs. Subsequently, passthroughs for destination entry have k e n increased and, in addition, as Postal Service witness Yeh notes at page 5 of her testimony (USPS-T-38, Revised 8-10-06), a discount for flats (*i.e.*, catalogs) was introduced in Docket No. R2001-1. This de-averaging of rates by shape gave further recognition in the rate structure to the low-cost characteristics of

catalogs (and also, by implication, recognized the higher cost characteristics **of** parcels), and has been instrumental in holding down the cost increases for catalogs. Straightforward rate de-averaging based on full recognition of cost-causing characteristics **thus** appears to have successfully pre-empted any need for a separate rate category based on content, such as a rate category for catalogs.

USPS/AMZ-T1-10.

Is the non-print material that has been permitted in BPM since 2001, as discussed in your testimony in part III.C., limited to merchandise that is "closely related" to books?

Response:

Other than the weight and value restrictions that were published in the *Federal Register* and discussed in my testimony, I am not aware of any such limitation on nonprint attachments and enclosures that may be included in **BPM**.

USPS/AMZ-T1-11.

What percent of Amazon's Bound Printed Matter volume contains non-print enclosures or attachments?

Response:

I am advised that Amazon.com does not capture data on percentage of SKUs that ship BPM and contain (as part of the published/manufactured unit) an enclosed or attached CD or DVD. I am also advised that the percentage of products shipped at BPM rates for which Amazon.com includes a non-print marketing insert (something free that the customer has not ordered) is less than 0.1 percent.

USPS/AMZ-T1-12.

Are otherwise permissible enclosures or attachments mailable as Bound Printed Matter in the absence of an accompanying book or catalog?

Response:

I interpret your interrogatory to mean, "If my proposal were adopted, would otherwise permissible enclosures or attachments [be] mailable as Bound Printed Matter in the absence of an accompanying book or catalog?" Assuming that this is what your interrogatory intends, my answer is yes. Altering or modifying the existing rules that govern otherwise permissible enclosures likely would add to complexity and unnecessarily complicate matters. Further, since the weight of permissable enclosures or attachments is limited to 25 percent of the weight of the BPM item. the light weight of CDs and other electronic formats would limit the permissable enclosures or attachments far more than a heavier weight book.

USPS/AMZ-T1-13.

Please refer to lines13-14 on page 28 of your testimony.

- a. Please confirm that your proposed cost coverage for Bound Printed Matter to be set between 113 to 114 percent will produce a Test Year After Rates contribution in the range of \$0.12 and \$0.13.
- b. If you do not confirm, please provide the corresponding TYAR contribution. If you do confirm, please refer to Section D on pages 16-18 of your testimony and confirm that under your proposed cost coverage, the unit contribution of Bound Printed Matter is approximately \$0.09 less than that of Media Mail. If you do not confirm that difference, please provide the difference in unit contribution between Bound Printed Maner and Media Mail under your proposed BPM cost coverage.

Resuonse:

- a. Confirmed that my proposed coverage will produce a Test Year After

 Rates contribution in the range of \$0.12 to \$0.13 per dollar of

 attributable cost. The unit contribution will be reflected in the rate, and
 the absolute amount of the contribution will vary depending on the

 weight, zone, point of entry, etc.
- b. Under Postal Service witness Yeh's (USPS-T-38) proposed coverage of 109 percent for Media Mail, the Postal Service will receive \$0.09 per dollar of attributable cost for Media Mail. It is correct that, on average, pieces of Media Mail pay a considerably higher rate than do pieces of BPM and, consequently, the Postal Service may receive a lower unit contribution from a package that migrates from Media Mail to BPM. Note, though, that because of Media Mail's lower coverage, the

Postal Service must incur a considerably greater expense in order to earn a slightly higher unit contribution.

USPS/AMZ-T1-14.

Please refer to your testimony at page 21, lines 17-18. To what extent is the subclass name "somewhat inappropriate"? If it is due to the permissibility of attachments or enclosures, is not "Periodicals" also "somewhat inappropriate," since non-Periodicals material is allowed to be attached or enclosed?

Response:

At present, I would say that the subclass name is "somewhat" inappropriate because enclosures that are neither printed nor bouna may be sent with Bound Printed Matter. It would become more inappropriate if various electronic formats were to be allowed.

Whether "Periodicals" is a "somewhat inappropriate" description of what was formerly Second Class Mail is a judgement call. Personally, I rather liked the old First, Second, Third, and Fourth Class as a way of distinguishing between the various classes of mail. Those prior terms were simple, unambiguous, and readily understood by most people.

USPS/AMZ-T1-15.

Please refer to your testimony at page 22, lines 1-2

- a. Why do you believe that "BPM," which stands for "Bound Printed Matter," is a more appropriate name for your proposed expanded subclass than "Bound Printed Matter" itself!
- b. Would a name that betrer reflects your proposed expanded content and reflects more marketing panache be a better choice? If so, have you any suggestions?

Resuonse:

a. As you correctly note, the acronym "BPM" currently stands for "Bound Printed Matter." If my proposal is adopted, however, the subclass then would contain various electronic media which are neither bound nor printed. Included currently would be tapes, cassettes, CDs, and DVDs, but new media formats — such as iPous and USB memory devices (e.g., flash drives, store 'n go memory drives, one-stick memory drives) — also may become commonplace. However, once all references to "Bound Printed Matter" are deleted, and replaced simply by "BPM," there is no reason why the acronym "BPM" must be interpreted as (or read as) "Bound Printed Matter." Over time, a reference to the BPM subclass could stand on its own, just as corporate names such as NCR and FMC do now (I would like to think that the Postal Service is not uncomfortable with acronyms). If "BPM" must stand for something, it could be interpreted as "Bulk Published Material."

b. Assuming that my proposal is adopted, it is certainly conceivable that other names might be more descriptive, or more appropriate, than simply "BPM." However, my suggestion does have the advantage of brevity, simplicity, and continuity. Of course, names of classes and subclasses are not immutable. They can and do change, as occurred in Docket No. MC95-1 (and subsequently, as occurred when "Standard A" was shortened to "Standard"). With respect to a new name that might reflect "more marketing panache," I would opine that the high degree of rate de-averaging and worksharing options, coupled with the cost and rate advantages which these options provide, will make the BPM subclass sufficiently attractive to bulk mailers, and thereby preclude any need for more "marketing panache." (N.B. for a fundamental, yet highly costeffective service, such as BPM, "more marketing panache" has a dangerous ring to it. What the Postal Service must avoid is allowing costs to creep up, or service to decline, and then try to substitute marketing panache for a decline in the fundamentals.) On possibility might be "Bulk Book Matter," or, simply, "BBM."

USPS/AMZ-T1-16.

Would your proposed content change apply to single-piece (Nonpresort) Bound Printed Matter? If not, what factors justify the exclusion?

Resoonse:

No. The Postal Service has indicated its desire and its decision to restrict single-piece BPM as a retail offering, and I would concur with this decision. BPM's low unit cost derives in large part from the fact that it is essentially a bulk subclass (single-piece BPM amounts to less than 5 percent of total volume) with the largest number of worksharing options available to any subclass, and those options can be utilized only by bulk mailers. As a practical matter, single-piece mailings cannot be presorted, destination entered, or pre-barcoded. As Postal Service witness Yeh (USPS-T-38) has noted, retail customers can use Media Mai! for :heir single-piece mailings. Opening up zoned BPM to single-piece items that otherwise would be sent as Media Mail only invites adverse selection, without encouraging more efficient practices by mailers.

USPS/AMZ-T1-17.

Have you done any analysis of the effects of your proposed change on costs? If so, please provide it.

Response:

No. Detailed cost analysis did not appear necessary, other than the cost analysis in my Appendix I. Since rates in BPM now are highly de-averaged and reflective of virtually all known, important cost drivers, it would appear that each rate cell stands on its own (i.e., is financially self-supporting). Possibly the biggest shortcoming in the costs that underlie BPM rates is the relationship between weight and cost. I am not asserting that the weight-cost relationship built into rate structure is wrong — just that it is not well documented. To elaborate, the weight-related cost for transportation, supplied by Postal Service witness Mayes (USPS-T-25), is reasonably well documented. However, the 2 cents per pound that is added on for weight-related handling costs, regardless of entry point or presort condition, has never been documented, nor has it been increased to allow for inflation since the time when it was first implemented. I do not possess the means to conduct an analysis of the effect of weight on Postal Service handling costs (including delivery). The weight-cost relationship may be a less important consideration in BPM than it is in the other parcel subclasses, because the weight limit on BPM is 15 pounds, much BPM is destinationentered, and the cost of weight probably is related to the amount of internal handling and processing required.

USPS/AMZ-T1-18.

To be consistent with your testimony, shouldn't your proposed DMCS language say: "...sound recordings or video recordings, including incidental announcements of recordings and guides or scripts prepared solely for use with such recordings, that are closely related to books, ..." If your answer is no, please how [sic] your discussion of the importance of the close relationship is or is not actually reflected in the substance of the language that you propose that the Commission recommend.

Response:

My proposal in **as** set out in Appendix II of my testimony. This would allow all sound and video recordings related to books to be carried **as** BPM, but it is understood that to achieve optimal ease of administration, this would necessarily allow sound and video recordings not related to books to be carried as BPM as well

As an alternative proposal, however, I set out below DMCS language which would leave implementing details to the Postal Service to specify in the DMM whether all or just some sound and video recordings would be permitted. For example, if the Postal Service decided to permit only those sound and video recordings "based on a book" to be entered as BPM, those qualifying CDs/DVDs "based on a book" which are readily ascertainable from the title or jacket of the item in question would presumably be permitted, and if necessary the Postal Service could develop more refined procedures to deal with situations where such a showing were not so obvious. See my response to USPS/AMZ-T1-7. The only change in the DMCS language below is the bolded words that have been added to new paragraph b:

522 Bound Printed Matter BPM Subclass

- **522.1 Definition.** The Bound Printed Matter BPM subclass consists of Package Services mail weighing not more than 15 pounds and not having the nature of personal corresuondence, which either:
 - a. <u>i.</u> Consists of advertising, promotional, directory, or editorial material, **or** any combination thereof;
 - b. ii. Is securely bound by permanent fastenings including, but not limited to, staples, spiral bindings, glue, and stitching; loose leaf binders and similar fastenings are not considered permanent;
 - e: iii. Consists of sheets of which at leas 90 percent are imprinted with letters, characters, figures or images or any combination of these, by any process other than handwriting or typewriting;
 - d. Does not have the nature of personal correspondence;
 - e. iv. Is not stationery, such as pads of blank printed forms., or
 - b. Consists of sound recordings or video recordings, as specified by the Postal Service, including incidental announcements of recordings and guides or scrims prepared solely for use with such recordings, if they are mailed at Basic Presort Rate or Carrier Route Presort Rate.

1	CHAIRMAN OMAS: Mr. McKeever, would you		
2	please identify your next witness so I can swear him		
3	in please?		
4	MR. McKEEVER: Thank you, Mr. Chairman.		
5	John McKeever for United Parcel Service. United		
6	Parcel Service calls Ralph Luciani to the stand.		
7	Whereupon,		
8	RALPH L. LUCIAN1		
9	having been first duly sworn, was called as a witness		
10	herein, and was examined and testified as follows:		
11	CHAIRMAN OMAS: Please be seated.		
12	Mr. McKeever.		
13	MR. McKEEVER: Thank you, Mr. Chairman.		
14	DIRECT EXAMINATION		
15	BY MR, McKEEVER:		
16	Q Mr. Luciani, do you have with you a copy of		
17	the document entitled Direct Testimony of Ralph L.		
18	Luciani on behalf of United Parcel Service and		
19	identified as UPS-T-2?		
20	A Yes, I do.		
21	Q If you were to testify orally today would		
22	your testimony be as set forth in that document?		
23	A Yes, it would.		
24	MR, McKEEVER: Mr. Chairman, I move that the		
25	direct testimony of Ralph L. Luciani on behalf of		
	Heritage Reporting Corporation (202) 628-4888		

1	United Parcel Service and identified as UPS-T-2 be		
2	admitted into evidence.		
3	CHAIRMAN OMAS: Is there any objection?		
4	(No response.)		
5	CHAIRMAN OMAS: Hearing none, Mr. McKeever,		
6	would you please provide the reporter with two copies		
7	of the Corrected Direct Testimony of Ralph L. Luciani.		
8	That testimony is received into evidence. However, as		
9	is our practice it will not b∈ transcribed.		
10	(The document referred'to was		
11	marked for identification as		
12	Exhibit No. UPS-T-2,		
13	Corrected Direct Testimony of		
14	Witness Ralph L. Luciani, and		
15	was meceived in evidence.)		
16	Mr. Luciani, have you had an opportunity to		
17	examine the packet of designated written cross		
18	examination provided to you this morning?		
19	THE WITNESS: Yes, I have.		
20	CHAIRMAN OMAS: If the questions in that		
21	packet, that are contained in that packet were posed		
22	to you today would they be the same as those you		
23	provided the Commission in writing?		
24	THE WITNESS: Yes, they would. There was		
25	one typographical error that I'd like to correct.		

Heritage Reporting Corporation (202) 628-4888

1	CHAIRMAN OMAS: Please do.
2	THE WITNESS: PSA/UPS-T-2-3 in line, in my
3	response in line C, Part C, line 2 there are two
4	entries of intra-BMC in that line. That was
5	inadvertent. I'd like to change the first entry from
6	intra-BMC to DBMC-entry.
7	CHAIRMAN OMAS: Thank you. Are there any
8	additional corrections or additions you'd like to make
9	at this point?
10	THE WITNESS: No.
11	CHAIRMAN OMAS: Thank you.
12	Mr. McKeever, would you please provide the
13	reporter with two copies of the Corrected Designated
14	Written Cross-Examination of Witness Luciani to the
15	reporter. That material is received into evidence and
16	is to be transcribed into the record.
17	(The document referred to was
18	marked for identification as
19	Exhibit No. UPS-T-2,
20	Corrected Designated Written
21	Cross-Examination of Witness
22	Luciani, and was received in
23	evidence.)
24	//
25	//

BEFORE THE POSTAL RATE COMMISSION WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION OF UNITED PARCEL SERVICE WITNESS RALPH L. LUCIANI (UPS-T-2)

Party <u>Interrogalories</u>

Parcel Shippers Association PSA/UPS-T2-1-13

USPSIUPS-T2-2-3, 17

United States Postal Service PSA/UPS-T2-1-2, 8, 10

USPS/UPS-T2-1, 3-5, 7-17

Respectfully submitted,

Steven W. Williams

Secretary

INTERROGATORY RESPONSES **OF**UNITED PARCEL SERVICE WITNESS RALPH L. LUCIANI (T-2) DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Desianatina Parties
PSNUPS-T2-1	PSA. USPS
PSA/UPS-T2-2	PSA, USPS
PSA/UPS-T2-3	PSA
PSA/UPS-T2-4	PSA
PSA/UPS-T2-5	PSA
PSA/UPS-T2-6	PSA
PSA/UPS-T2-7	PSA
PSA/UPS-T2-8	PSA. USPS
PSA/UPS-T2-9	PSA
PSA/UPS-T2-10	PSA, USPS
PSA/UPS-T2-11	PSA
PSA/UPS-T2-12	PSA
PSAIUPS-T2-13	PSA
USPS/UPS-T2-1	USPS
USPS/UPS-T2-2	PSA
USPS/UPS-T2-3	PSA, USPS
USPSIUPS-T2-4	USPS
USPSIUPS-T2-5	USPS
USPSIUPS-T2-7	USPS
USPS/UPS-T2-8	USPS
USPS/UPS-T2-9	USPS
USPS/UPS-T2-10	USPS
USPS/UPS-T2-11	USPS
USPS/UPS-T2-12	USPS
USPSIUPS-T2-13	USPS
USPS/UPS-T2-14	USPS
USPS/UPS-T2-15	USPS
USPS/UPS-T2-16	USPS
USPS/UPS-T2-17	PSA, USPS

PSA/UPS-T2-1. Please refer to your discussion of the CRA adjustment factor on pages 9 through 11 of your testimony and USPS-LR-L-46 Addendum Revised 8/2/06, page 1, columns [5] and [6] and page 3.

- (a) Please confirm that USPS-LR-L-46 adds the unit cost in fixed CRA cost pools to each category of Parcel Post to estimate the "adjusted unit cost" for each category. **If** not confirmed, please explain fully.
- (b) Please confirm that, in USPS-LR-L-46, the unit cost for MODS cost pools that are classified as fixed total 15.59 cents. If not confirmed, please provide the correct figure.
- (c) Do you believe that, on average, DDU parcels will incur 15.59 cents per piece in costs in MODS cost **pools** in the Test Year? If so, please explain your response fully.
- (d) Would you agree that, as a general rule, DDU parcels avoid incurring costs at MODS 1&2 facilities? If not, please explain your response fully.

- (a) Confirmed.
- (b) Confirmed.
- (c) I do not know. It is my understanding that some of the plants, stations and branches are part of the MODS system. See my response to part (d).
- (d) Not as a general rule. Based on the available data, I am not able to conclude that DDU-entry can avoid the costs for miscellaneous and support operations at MODS facilities, such as verification activities, computerized forwarding and the staging of empty equipment for use by associate offices, Moreover, my understanding is that the MODS LD79 cost pool includes verification costs for DDUentry parcels (see UPS/USPS-T25-21 in Docket No. R2001-1, Tr. 11-A/4007).

PSA/UPS-T2-2. Please refer to page 14 of your testimony where you estimate the cost of a manual parcel sort at the DDU to be 24.0 cents.

- (a) Please confirm that 24.0 cents is the unit Parcel Post cost for the non-MODS ManP cost pool for the incoming basic function. If not confirmed, what is it?
- (b) Do you agree that, as a general rule, DDU parcels avoid outgoing costs at Non-MODS facilities? If not, please explain your response fully.
- (c) Do you agree that, as a general rule, mail processing costs incurred at DDUs are non-MODS costs for basic functions other than the outgoing basic function? If not, please explain your response fully.

- (a) Confirmed.
- (b) As a general matter. yes. A cost pool/basic function method (i.e., exclusion of outgoing basic function costs) was used by the Postal Service to estimate DBMC worksharing avoided costs until being replaced by the hybrid methodology approach in Docket No. R2001-1. In Docket No. R2000-1, it was discovered that a significant share of the costs categorized as outgoing was being incurred by DBMC-entry parcels. This discovery and the associated uncertainty regarding the basic function data helped prompt the movement by the Postal Service to a hybrid methodology for estimating DBMC-entry avoidances. To my knowledge, the cost pool/basic function methodology has not been applied by the Postal Service in estimating DDU-entry avoided savings.
- (c) Not as a general rule. See my response to PSA/UPS-T2-1(c).

PSA/UPS-T2-3. Please refer to USPS-L-82, WP-PP-28. Please refer further to your discussion of the extent to which USPS-proposed rates deviate from preliminary rates on lines 1 through 4 of page 13 of your testimony.

- (a) Please confirm that more than 99% of DDU parcels weigh 46 pounds or less. If not confirmed, please provide the correct figure.
- (b) Please confirm that, for every DDU rate cell from 1 pound to 46 pounds, the proposed rate differs from the preliminary rate by less than two percent. If not confirmed, please explain fully.
- (c) Taking into account your response to subparts (a) and (b) of this interrogatory, please confirm that, on average, DDU rates are less constrained than the average Parcel Post rate? If not confirmed, please explain fully.

- (a) Confirmed that more than 99% of DDU parcels weigh 46 pounds or less using the DDU-entry volume data in USPS-LR-L-82, WP-PF-28.
- (b) Confirmed.
- On a volume-weighted basis, the DDU-parcel rates are constrained somewhat DBMC SATTELY less than inter-BMC rates, and significantly less than inter-BMO, DSCF-entry and Intra-BMO rates. As such, confirmed that the DDU rates are less constrained than the average Parcel Post rate comprising these rate categories.

PSA/UPS-T2-4. Please refer to lines 5 through 9 on page 16 of your testimony where you state:

1. Based on better data being available, the no-fee electronic delivery confirmation cost in the Parcel Post rate design model for Parcel Select parcels (applied on USPS-LR- L-82, WP-PP-20, lines [t], [u] and [v]) should be 14.67 cents per piece (rather than 10.73 cents per piece) and should be applied to 85.9% of the Parcel Select volume rather than 80%.

Please refer further to USPS-LR-L-82, WP-PP-28 and to USPS-LR-L-59, Final Adjustments2008- USPS.xls, worksheet "DC Worksheet." Finally, please refer to USPS-LR-L-82, WP-PP-20, lines [w] and [x] where witness Kiefer applies a markup to the electronic delivery confirmation unit cost.

- (a) Please refer to USPS-LR-L-82, WP-PP-28 and confirm that the Postal Service estimates that there will be 244.1 million TYAR Parcel Select (excluding PRS) pieces. If not confirmed, please provide the correct figure.
- (b) Please confirm that you recommend that the Parcel Post rate design model apply the no-fee electronic delivery confirmation cost to 85.9% of Parcel Select pieces. If not confirmed, please explain fully.
- (c) Please confirm that 85.9% of 244.1 million pieces is 209.7 million pieces. If **not** confirmed, please explain fully.
- (d) Are you aware that, in its Final Adjustment, the Postal Service estimated a TYAR Parcel Select no-fee electronic delivery confirmation volume of 267.8 million?
- (e) Taking into account your responses to subparts (a)-(c) of this interrogatory, do you believe that the TYAR Parcel Select no-fee electronic delivery confirmation volume will be 267.8 million pieces? Please explain your response fully.
- (f) Please provide your best estimate of the TYAR Parcel Select no-fee electronic delivery confirmation volume and all of your underlying calculations.
- (g) Do you believe that the Postal Service should apply a markup to the electronic delivery confirmation unit cost when determining the "Additional Parcel Select Piece-Element Revenue Target" on USPS-LR-L-82, WP-PP-20. line [x]? Please explain your response fully.

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) I am aware that, based on Base Year proportions, Parcel Select's share of the projected Test Year Delivery Confirmation volume would be 267.8 million. See responses to UPS/USPS-T23-4 (Tr. 15/4530-31) and UPS/USPS-T23-6 (Tr. 15/4741).
- (e) No. Based on the available data, a 209.7 million estimate is reasonable for Parcel Post rate design purposes.
- (f) See my response to parts (a) (e), and my testimony at page 16.
- (g) Yes. This is consistent with the markup of other assigned costs in the Parcel Post rate design and the use of a markup in setting the rates for Delivery Confirmation.

PSA/UPS-T2-5. Please refer again to lines 5 through 9 on page **16** of your testimony where you state:

1. Based on better data being available, the no-fee electronic delivery confirmation cost in the Parcel Post rate design model for Parcel Select parcels (applied on USPSLR-L-82, WP-PP-20, lines [t], [u] and [v]) should be 14.67 cents per piece (rather than 10.73 cents per piece) and should be applied to 85.9% of the Parcel Select volume rather than 80%.

Please refer further to USPS-LR-L-59, DC-TY2008(AR).xls, worksheets "W-4e" and "l-8e".

- (a) Have you developed any independent estimates of the unit cost of Parcel Select nofee electronic delivery confirmation? If so, please provide them.
- (b) Please confirm that the Postal Service's **14.67** cent per piece cost estimate for Parcel Select no-fee electronic delivery confirmation includes 2.85 cents of Window Service costs and that this cost is incurred for "customers that print and adhere an electronic label but submit their item(s) at the window." If not confirmed, please explain fully.
- (c) Please confirm that the Postal Service estimates that the unit **TYAR** Window Service costs for Priority Mail electronic delivery confirmation, First-class Mail electronic delivery confirmation, Package Service electronic delivery confirmation, and Standard Mail electronic delivery confirmation are 2.85 cents per piece. If not confirmed, please explain your response fully.
- (d) In your opinion, are Parcel Select no-fee electronic delivery confirmation pieces more likely or less likely than other pieces with electronic delivery confirmation to be entered at postal "windows"? Please explain your response fully.

RESPONSE:

- (a) No.
- (b) Confirmed that this cost and associated language is contained in the referenced

Postal Service worksheet

- (c) Confirmed.
- (d) I have not studied this issue with respect to other subclasses, and do not know.

PSA/UPS-T2-6. Please refer to Table 4 on Page 12 of your testimony and the response to UPS/USPS-T37-10 (Tr. 8/2148-51). In particular, please refer to where witness Kiefer stated, "I do not know how close these assigned costs are to the actual costs of Inter-BMC, DBMC, and DSCF parcels."

- (a) Please confirm that you produced the "Contribution per Piece" figures in this table by subtracting the Postal Service's estimates of the assigned unit costs by rate category from the Postal Service's estimates of the unit revenues by rate category. If not confirmed, please explain fully and provide the unit cost and revenue figures for each of the Parcel Post rate categories shown in Table 4 and all of your underlying calculations.
- (b) Please confirm that the Postal Service's estimate of the assigned costs and revenues for inter-BMC Parcel Post exclude the costs and revenues of pieces referred to on page 4 of UPS/USPS-T37-10 as Dim-Weight Pieces. If not confirmed. please explain fully.
- (c) Please provide your understanding of what "Dim-Weight Pieces" are.
- (d) Please confirm that including the costs and revenues of these pieces in the calculation of the unit contribution of inter-BMC parcels would reduce the estimated unit contribution of inter-BMC parcels from what is shown in Table 4.
- (e) Have you performed any analysis to determine how close assigned costs by rate category are to actual costs by rate category? If so, please provide the results of your analysis and all of your underlying calculations.
- (f) In calculating assigned costs by rate category, did the Postal Service take into account the carrier (C/S 7 and 10) collection/acceptance cost difference between rate categories? Please explain your response fully. If not, plesse provide your best estimate of unit Parcel Post collection costs by rate category and provide all of your underlying calculations.

- (a) Confirmed.
- (b) Confirmed
- (c) According to page 13 of USPS-T-33 (Scherer), "[d]im-weighting is a pricing method, applicable to packages, that considers the density ... of the package.

 Relatively high-density packages are priced based on weight while relatively low-density

packages are priced based on cubic volume. ... * Dim-weighting is being proposed for Zones 5 though 8 of Priority Mail. The implementation of dim-weighting in Priority Mail is expected to result in a migration of some Priority Mail pieces to Parcel Post. See page 20 of USPS-T-37 (Keifer).

- (d) Confirmed. I calculate that the Inter-BMC TYAR contribution per piece, including the Dim-Weight volume, would be \$1.09 instead of \$1.20.
- (e) No.
- (f) No. To my knowledge, no carrier cost differentials were included by the Postal Service in the assignment of costs to Parcel Post rate categories, including any collection cost differences and delivery cost differences that would result from the higher average cubic feet per parcel for Parcel Select parcels. I do not have the requested estimate.

PSA/UPS-T2-7. Please refer to Table 1 on page 5 of your testimony and confirm that the "average transportation-related attributable costs" shown in this table include Vehicle Service Driver (CIS 8) costs (and associated piggybacks) and Purchased Transportation (CIS 14) costs. If not confirmed. please explain fully.

RESPONSE:

Confirmed. See USPS-LR-L-89, Attachment B, pp. 7 and 8.

PSA/UPS-T2-8. Please refer to line 15 on page 16 through line 2 on page 17 of your testimony where you state:

The Window Service worksharing cost avoidances should be calculated using PRS pieces counted as non-dropship pieces since PRS pieces are not eligible for dropship rates, and henceforth the window service costs for PRS should be separately identified and analyzed in calculating Window Service savings.

Please refer further to the Postal Service's response to UPS/USPS-T21-14(c), which states:

It is my understanding that PRS mail would likely be treated as 'dropship' mail in the IOCS activity codes. It is also my understanding that it is not possible to distinguish between any PRS-Related tallies and non-PRS Parcel Select tallies at this time.

- (a) Please confirm that PRS Window Service costs are likely counted as costs for "dropship" mail. If not confirmed, please explain fully.
- (b) Is it your testimony that the Postal Rate Commission should count PRS pieces as nondropship pieces in calculating the Window Service worksharing cost avoidance in this case even though the Window Service costs for PRS pieces are likely being counted as costs for dropship pieces? Please explain your response fully.
- (c) Do you believe that the percentage of PRS pieces that will incur Window Service costs in the Test Year will be larger, smaller, or the same as the percentage of non-PRS Parcel Select pieces that will incur Window Service costs in the Test Year? Please explain your response fully.

RESPONSE:

(a) I cannot confirm based on the information I have available. The Postal Service characterizes this as "likely," but I do not know on what basis a PRS parcel that cannot be dropshipped would be counted as dropshipped, and whether such a mistaken treatment was haphazard or systematic.

- (b) No. It is my testimony that PRS parcels are not dropshipped and thus should not be included with dropshipped Parcel Select parcels in this calculation absent specific evidence that they were mistakenly treated as dropshipped on a systematic basis.
- (c) I do not have the data to make this determination, but would expect PRS parcels to incur window service costs given that this is a common source of entry for these parcels. That is why I recommend that the volume for the PRS parcels not be included with Parcel Select in the Window Service calculation.

PSA/UPS-T2-9. Please refer to Table 42 on page 178 of USPS-T-7, which shows a long-run own price elasticity of -0.374 for nondestination entry Parcel Post, and Table 44 on page 185 of USPS-T-7. which shows a long-run own-price elasticity of -1.399 for destination entry Parcel Post.

Please also refer to lines 4 through 5 on page 181 of USPS-T-7, which list "Price of competitor products (in this case, UPS and FedEx Ground) [and] Price of destination entry Parcel Post mail" as the variables that principally affect destination entry Parcel Post volume.

Finally, please refer to lines 4 through 5 on page 173 of USPS-T-7 which lists "Price of UPS Ground delivery [and] Price of non-destination entry Parcel Post" as the variables that principally affect nondestination entry Parcel Post volume.

- (a) Please confirm that, according to the elasticity estimates developed by USPS witness Thress (USPS-T-7), Parcel Select volume is much more sensitive to the price of Parcel Select than the volume of non-destination entry Parcel Post is to the price of nondestination entry Parcel Post. If not confirmed, please explain fully.
- (b) Have you performed any studies of the variables that affect non-destination entry and destination entry Parcel Post volume and/or the extent to which each variable affects nondestination entry and destination entry Parcel Post volume? If so. please provide them.

- (a) Confirmed that the own-price elasticity estimates indicate that the demand for Parcel Select is more price sensitive, all else equal, than for non-destination entry Parcel Post.
- (b) No.

PSA/USPS-T2-10. Please refer to lines 19 through 20 on page 7 of your testimony where you state, "The number of pieces per container affects the productivity used in determining the avoided costs." Please refer further to footnote 14, which runs from page 7 to page 8 of your testimony where you state,

"The possibility that a small number of Parcel Post pieces may be entered at a DDU is not as unrealistic as Postal Service witness Miller suggests in this interrogatory response. Mailers may drop more than one subclass of mail at the DDU. so that Parcel Post parcels may be only a small fraction of the total dropshipment."

Please also refer to USPS-LR-L-46 at 21-23.

- (a) Please confirm that the only activity modeled by the USPS for DDU parcels that requires an estimation of the number of pieces per container is "Move Containers From Dock." If not confirmed, please explain your response fully.
- (b) Can multiple subclasses of parcels be moved from the dock in the same container? If not, please explain your response fully.
- (c) In FY 2005, did Parcel Select DDU parcels comprise "only a small fraction" of the total volume of parcels entered at the DDU? Please explain your response fully and provide all of your underlying calculations.
- (d) In FY 2005, what percentage of parcels entered at the DDU were Parcel Select DDU parcels? Please provide all of your underlying calculations.

RESPONSE:

(a) Confirmed. The Postal Service has not studied DDU-entry handling practices at the DDU, and, as such, other activities could be taking place that should be modeled. See USPS/UPS-T21-6. For example, DDU-entry parcels entered on pallets are not differentiated in the "Move Containers from Dock" operation from those DDU-entry parcels that are placed into Postal Service containers at the DDU, nor are activities included to model the handling of empty pallets.

- (b) Physically, yes. Ido not know if this is a standard practice for DDU-entry Parcel Post parcels. See USPS/UPS-T21-6. It seems unlikely that Standard Mail Enhanced Carrier Route parcels and Carrier-Route Bound Printed Matter parcels would be combined with DDU-entry Parcel Post parcels at the DDU dock. According to the DMM at 705.6.2.1.c. and 705.7.1.1, "Standard Mail parcels may not be combined with Package Services parcels prepared for DDU rates," and Carrier Route Bound Printed Matter may not be combined with other DDU-entry Package Services parcels.
- (c) I have not performed this calculation. It is my understanding that any particular dropshipment at a DDU can be comprised of various shapes of mail and various subclasses of mail. In the TYAR, DDU-entry Parcel Post parcels are projected by the Postal Service to be 186 million pieces (See USPS-LR-L-82, WP-PP-28). In the TYAR, the Postal Service projects about 31 million Standard A parcels will take advantage of the new DDU-entry rate for those parcels (See USPS-LR-L-36. WP-STDREG-30 and WP-STDREG-31). BPM entered at the DDU is projected to be 72 million in the TYAR, but this total includes fiats and pieces presorted to carrier-route (See USPS-LR-L-41, WP-BPM-1 and WP-BPM-27). In the TYAR, the Postal Service projects about 100 thousand Standard Mail ECR parcels will be entered at the DDU (See USPS-LR-L-36, WP-STDECR-19 and WP-STDECR-20).
- (d) See my response to part (c).

PSA/UPS-T2-1 1. Please refer to USPS-LR-L-46Addendum Revised 8/2/06, page 3. Please also refer to your response to PSA/UPS-T2-1(c) where you state,

"It is my understanding that some of the plants, stations and branches are part of the MODS system."

Finally, please refer to USPS-T-11, page 27. lines 13 through 17 where it states,

"However, the mail processing activities for post-offices, stations, and braches at MODS and non-MODS facilities are consolidated into one group (POISTNBR) by combining the MODS LDC 41-44 and 48 cost pools with the non-MODS facilities. This consolidation leaves the MODS offices with essentially 'plant' activities defined in great deal by MODS operations."

- (a) Please confirm that the MODS cost pools shown in Addendum Revised 8/2/06. page 3 do not include costs for post offices, stations, and branches (POISTNBR) that are part of the **MODS** system. If not confirmed. please explain fully.
- (b) Please confirm that the costs for post offices, stations, and branches that are part of the MODS system are included in the Non-MODS cost pools on USPS-LR-L-46, Addendum Revised 8/2/06, page 3. If not confirmed, please explain fully.
- (c) In your response to PSA/UPS-T2-1(c), did you mean "post offices, stations, and branches" as opposed to "plants, stations, and branches"? If not, please explain the relevance of "plants" to your response to PSA/UPS-T2-1(c).

- (a) Confirmed that the costs in MODS cost pools for post offices, stations and branches in the MODS system are transferred to Non-IMODS cost pools in the Postal Service version (USPS-LR-L-46). The costs in MODS cost pools for post offices, stations and branches in the MODS system are not transferred to Non-MODS costs pools in the PRC version (USPS-LR-L-103; see USPS-T-11, page 27, lines 6-7).
- (b) See response to part (a)
- (c) Yes.

PSA/UPS-T2-12. Please refer to USPS-LR-L-46 Addendum Revised 8/2/06, page 3. Please also refer to your response to **PSA/UPS-T2-1(d)** where you state,

"Based on the available data, I am not able to conclude that DDU-entry can avoid the costs for miscellaneous and support operations at MODS facilities, such as verification activities, computerized forwarding and the staging of empty equipment for use by associate offices."

Please list all MODS cost pools from USPS-LR-L-46 Addendum Revised 8/2/06, page 3 in which "costs for miscellaneous and support operations at MODS facilities, such as verification activities, computerized forwarding and the staging of empty equipment for use by associate offices" are generally incurred.

RESPONSE:

I am not familiar enough with the activities embodied within each MODS cost pool to provide a definitive list. These operations are likely to be MOOS cost pools **that** capture miscellaneous and support operations, such as those listed in section 3.1.2.3 of USPS-LR-L-1. In addition, the MISC Non-MODS pool is categorized as fixed and includes Bulk Mail Acceptance activities (see USPS-T-11, page 6).

PSA/UPS-T2-13. Please refer to your response to PSA/UPS-T2-4(e) where you state, "No. Based upon available data, a 209.7 million estimate is reasonable for Parcel Post rate design purposes." Please also refer to page 16 of your testimony where you testify regarding the appropriate cost to be used to perform the Parcel Post Parcel Return Service Final Adjustment. Is 209.7 million a reasonable estimate of TYAR Parcel Select no-fee delivery confirmation volume for final adjustment purposes? If not, please provide the volume estimate that should be used for final adjustment purposes and explain fully why a different estimate should be used for final adjustment purposes than for rate design purposes.

RESPONSE:

An estimate of 209.7 million would be reasonable for TYAR Parcel Select no-fee delivery confirmation volume for final adjustment purposes if the Postal Service methodology for forecasting delivery confirmation volume allowed separatelyestimated TYAR volumes to be applied for the other delivery confirmation subclass categories as well. It appears from Postal Service interrogatory responses (UPS/USPS-T23-4, Tr. 15/4530-1, and UPS/USPS-T23-6, Tr. 15/4741) that the Postal Service relies on Base Year shares in this calculation, and believes that it is unable to do otherwise given the delivery confirmation forecasting methodology applied. I have not studied the forecasting technique used, and cannot provide additional explanation beyond that provided by the Postal Service in its interrogatory responses.

RESPONSES OF UNITED PARCEL SERVICE WITNESS LUCIANI TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/UPS-T2-1. Please refer to page 13, lines 5-8 of your testimony.

- (a) Please explain whether it is your view that the principles of efficient component pricing (ECP) should be followed in establishing prices regardless of the impact of the prices so established on the Postal Service's customers?
- (b) To your knowledge has the Commission ever recommended pricing that imposes constraints on the move toward more ECP-compatible pricing to achieve one or more non-cost pricing goals established in the Postal Reorganization Act?

- (a) No, that is not my view.
- (b) As noted in paragraph 3064 of the Commission's Opinion and Recommended Decision in Docket No. R2001-1, "[t]he Commission is required to consider all of the factors of section 3622(b) when reviewing appropriate discount rates for workshared mail." In that same paragraph, the Commission cites some examples from Docket No. R2000-1.

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USPS/UPS-T2-2. Please refer to page 19, lines 12-4 of your testimony. Other than the fact that the Commission recommended a Y0 percent passthrough in a previous case, please explain why the specific 90 percent passthrough figure is the appropriate figure to use in this case.

RESPONSE:

In its Opinion and Recommended Decision in Docket No. R2000-1 at paragraph 5807, the Commission noted that the 90% passthrough level for DSCF-entry and DDU-entry was set "to achieve a rate design that is more consistent with efficient component pricing." The Commission also noted in its Opinion and Recommended Decision in Docket No. R2001-1 at paragraph 3064 that "establishing discounts to pass through 100 percent of avoided costs is an appropriate policy, but that other considerations sometimes preclude its application." In my testimony, I discuss a number of issues that lead to a lack of confidence in the worksharing cost avoidance estimates for Parcel Post, and the resulting conservatism that should be applied in setting the passthrough to help ensure that the worksharing cost avoidances built into the Parcel Post rates do not exceed the costs actually avoided. My recommended 90% passthrough was selected to satisfy this concern as well as the general Commission objective of being as consistent as possible with efficient component pricing.

RESPONSES OF UNITED PARCEL SERVICE WITNESS LUCIAN! TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/UPS-T2-3. In your autobiographical sketch you state, "Over the past eleven years, I have visited and observed operations at Postal Service facilities on a number of occasions, including two visits to the Washington BMC and visits to two different Sectional Center Facilities, three Associate Offices/Delivery Units, and an Air Mail Center." Please estimate the dates that these eight field visits occurred. Also, please provide the names of the Sectional Center Facilities, Delivery Units, and Air Mail Center that you visited.

RESPONSE:

Between **1995** and **1997**, I visited the Washington BMC, the Merrifield, Virginia and Richmond, Virginia Sectional Center Facilities, the Air Mail Center at Reagan National Airport, and Associate Offices/Delivery Units in Arlington, Virginia and Richmond, Virginia. In 2000, I visited the Associate Office/Delivery Unit in Laurel, Maryland.

RESPONSES OF UNITED PARCEL SERVICE WITNESS LUCIANI TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/UPS-T2-4. In your testimony on page 2, lines 22 to 23, you state, "The Postal Service's mail processing cost model for Parcel Post is based on outdated studies..." Please confirm that the age of a study does not necessarily compel a conclusion that the results from that study are no longer accurate or reliable. If you do not confirm, please explain how age alone is a sufficient reason to reject the results **of** a study.

RESPONSE:

Confirmed. While age does not necessarily compel such a conclusion, it does raise concerns that should be evaluated and addressed about the study's continued applicability.

RESPONSES OF UNITED PARCEL SERVICE WITNESS LUCIAN! TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/UPS-T2-5. Please refer to page 7, lines 16 to 20, of your testimony, in which you state at footnote 14, "The possibility that a small number of Parcel Post pieces may be entered at a DDU is not as unrealistic as witness Miller suggests in this-interrogatory response." Have you conducted any field observations at mailer facilities or analyzed mailer data concerning the number of pieces of Parcel Post entered per delivery unit? If so, please indicate the number of facilities observed, the dates of observations, and summarize your findings.

RESPONSE:

No. To my knowledge, the Postal Service also has not examined this issue, and I recommend that it do so.

USPS/UPS-T2-7. On page 8, lines 1 to 2, you discuss the delivery unit costs associated with sorting parcels from the 5-digit level to the carrier route level.

- (a) Please describe your understanding as to what occurs in this operation.
- (b) To your knowledge, has this operation changed since 1982? If **so**, how has it changed?

RESPONSE:

- (a) Based on my visits to DDUs. my understanding is that mailhandlers manually sort the parcels that have been moved in containers to the parcel sortation area by picking up each parcel, looking at the address, and placing or tossing the parcel into the correct carrier-route hamper.
- (b) To my knowledge, the basic operation has not changed. However, it is likely there have been changes since 1982 in **a** number of factors that have changed the productivity of this operation from that of **24** years ago. Such factors could include the average density and size of the parcels, the extent to which 9-digit zip codes are used, the type of containers that the parcels are in prior to carrier-route sortation, the existence of now-allowed "oversized parcels." the number of carrier-route hampers, etc. In addition, the 1982 study was for 5-digit presorted Bound Printed Matter, so any differences in sortation costs (e.g., from size, density, and address readability differences) between the Bound Printed Matter and Parcel Post subclasses would not be reflected in it. Also, since several 5-digit zip codes can be combined at a destination associate office (see UPS/USPS-T25-6(a) in Docket No. R2001-1, Tr. 11-A/3977-78), the 5-digit presort proxy could have yielded a 1982 study result more efficient than one in

which 5-digit zip codes are combined.

USPS/UPS-T2-8. In your testimony on pages 7 to **9** you criticize various cost model inputs. Have you conducted any studies which indicate that any, or all, of these inputs are invalid? **Ifso**, please provide the results of those studies and indicate which cost model input each study affects.

RESPONSE:

No.

USPS/UPS-T2-9. In your testimony on page 11, lines 16 to 17, you state, "There is simply no relevant available knowledge **of** where in the postal system the modeled costs are being misestimated." Please confirm that any **c** the cost model inputs you describe on pages 7 to 9 could underestimate, exactly estimate, or overestimate the actual values. **If** you do not confirm, please explain.

RESPONSE:

Confirmed. The size of the CRA Proportional Adjustment Factor indicates that it is more likely that the modeled costs, in aggregate, are being underestimated.

USPS/UPS-T2-10. In your testimony on page 9, lines 10 to 12, you state, "Beginning with Docket No. R2001-1, the Postal Service has applied a 'CRA Proportional Adjustment Factor' to increase *its* modeled mail processing cost avoidances for DBMC-entry parcels, DSCF-entry parcels, and DDU-entry parcels."

- (a) Please confirm that the reason the CRA Proportional Adjustment Factor **is** applied to the modeled costs is to, as you state on lines 13-14 of page 9 of your testimony, "true up" those costs with the CRA costs. If you do not confirm, please explain.
- (b) Please confirm that your statement on page 9, lines 10 to 12, of your testimony does not mean that the reason CRA Proportional Adjustment Factors are used in the cost models is to increase mail processing cost avoidances, but means rather that the specific CRA Proportional Adjustment Factors calculated in the Parcel Post cost models since Docket No. R2001-1 have had the effect of increasing those cost avoidances. If you do not confirm, please provide citations from the parcel cost witnesses' testimonies in Docket Nos. R2001-1, R2005-1, and/or R2006-1 which indicate that the reason CRA Proportional Adjustment Factors are applied in the cost models is to increase mail processing cost avoidances.
- (b) Please confirm that CRA adjustment factors have historically been relied upon by both the Postal Service and the Commission when estimating costs for cards/letters, flats, and parcels. If you do not confirm, please explain.

RESPONSE:

- (a) Confirmed that the CRA Proportional Adjustment Factor is applied to trueup the aggregate modeled **costs** with the aggregate cost of the CRA cost pools that have been classified as proportional.
- (b) Confirmed.
- (c) Confirmed that CRA adjustment factors have been used by the Postal Service and the Commission in a number of subclasses.

USPSIUPS-12-11. In your testimony on page 9, lines 13 to 16, you state, "The size of the factor the Postal Service uses to 'true up' the modeled costs with cost numbers contained in its Cost and Revenue Analysis Report ('CRA') costs pools strongly suggests that something is wrong with the Postal Service's Parcel Post mail processing cost model."

- (a) Please confirm that any cost model is going to represent a simplified version of reality. **If you** do not confirm, please explain.
- (b) Please confirm that it is possible that some tasks included in the costs **pools** that have been classified as "proportional" may include tasks that are not included in the cost models. If you do not confirm, please explain.

RESPONSE:

- (a) Confirmed, as a general matter. However, I cannot discount the possibility that a cost model could be more complex than the actual operation.
- (b) Confirmed. Similarly, it is also correct that some tasks included in the cost pools that have been classified as proportional may include tasks that are fixed.

USPS/UPS-T2-12. In your testimony on page **11**, lines 7 to 9 you state, "While a few percentage points of adjustment up or down to the modeled worksharing cost avoidances may be acceptable, the application of a **19.4 Y**_☉ gross-up factor to inflate all worksharing cost avoidances is problematic." In using the word "few," is it your view that a CRA Proportional Adjustment Factor which falls in the range of 0.97 to 1.03 would be deemed acceptable, and anything outside that range would be deemed unacceptable? **If** your response is anything other than an unqualified "yes," please define and provide a rationale for what you believe to be an acceptable CRA proportional adjustment factor range.

RESPONSE:

No. The acceptability of the level of the CRA Proportional Adjustment Factor depends on the level of the evaluation performed in the underlying cost study. If the cost studies and supporting data have been updated, and any differences in modeled task costs and the cost of the pools in which these tasks are performed have been examined closely and justified. then a larger range in the factor could be acceptable.

USPS/UPS-T2-13. On lines 5 to 15 of page 8 of your testimony you criticize certain cost model inputs based on the age of the data. For each of those inputs, please (a) identify any changes in parcel processing operations at the BMCs that you believe would have had an impact on the input, and (b) identify how those identified changes should have impacted the input.

RESPONSE:

I am not specifically aware of operational changes that may have impacted the data listed. But, for example, it would be surprising if there have been no changes in BMC arrival profiles and the percent of parcels with direct transportation from the BMC to the DDU since 1996. Moreover, Postal Service witness McCrery (USPS-T-42 at p. 23-24) discusses the implementation of upgrades to Parcel Sorter Machines at two BMCs and the deployment of new singulation/induction equipment at 19 BMCs. My point is simply that IO-year old data should be scrutinized for continued applicability.

USPS/UPS-T2-14. In your response to USPS/UPS-T2-4 you state that the age of a given study raises "concerns that should be evaluated and addressed about the study's continued applicability." Please assume a hypothetical study that studies certain operations. Do you agree that the less those operational conditions have changed since the study, the greater is the study's 'continued applicability," and the less need there is for updates to that study? If you do not agree, please explain.

RESPONSE:

I agree that the less the certain operations have changed since the time of the hypothetical study, the greater the likelihood of the study's "continued applicability" concerning those operations. While an operation may not have changed, the characteristics of the mail processed in the operation could have changed.

- **USPS/UPS-T2-15.** In your response to USPS/UPS-T2-7(b) you state that "it is likely there have been changes since 1982 in a number of factors that have changed the productivity of this operation from that of 24 years ago." You then proceed to list various factors that may have affected the productivity value.
- (a) You specifically indicate that the average density and size of the parcels might affect the productivity value. Please indicate how the size and density of parcels have changed over time and explain how that change might have affected the productivity value.
- (b) You specifically indicate that the extent to which 9-digit ZIP codes are used might affect the productivity value.
- (i) Please confirm that the DDU operation is used to sort 5-digit groupings of parcels to the carrier route level. If not confirmed, please explain.
- (ii) Please confirm that the delivery unit clerks who sort the parcels are "scheme-trained" such that they can look at the address on a mail piece for a given 5-digit ZIP Code and subsequently sort that mail piece to the appropriate carrier route and that no 9-digit ZIP Code is required to perform that task. If you **do** not confirm, please explain.
- (iii) Please explain how 9-digit ZIP Codes could affect the productivity value for parcel sorting operations performed at delivery units.
- (c) You specifically indicate that the types of containers that parcels are in prior to carrier-route sortation might affect the productivity value. Please describe the types of containers that are used now and indicate whether they were also used in 1982. For each container type change, please indicate how it might have impacted the productivity value.
- (d) You specifically indicate that the number of carrier rcute hampers might affect the productivity value.
- (i) Please describe how the productivity value would be affected if the number of carrier route hampers is greater now than it **was** in 1982.
- (ii) Please describe how the productivity value would be affected if the number of carrier route hampers is less now than it was in 1982.
- (iii) Please confirm that technology changes, such as delivery point sequencing, have resulted in a reduction in the number of carriers in some delivery units. If you do not confirm, please explain.

RESPONSE:

- a. I do not know how the density and size of the Bound Printed Matter pieces examined in the 1982 study compare to Parcel Post pieces over time. However, according to CRA data, the average cubic feet per piece for Parcel Post increased from 0.538 in FY82 (Docket No. R2000-1, USPS-T-26, Attachment A, page 6, column 14) to 0.983 in FY2005 (USPS-LR-L-2, Parcel Post cubic feet divided by pieces). Moreover, Parcel Select pieces have higher cubic feet per piece on average than non-Parcel Select pieces. UPS/USPS-T21-3(a), Tr. 3/308. Pieces with higher cubic feet per piece could take longer to sort due *to* greater difficulty in picking up the parcel and placing, tossing, or fitting the parcel into the appropriate carrier route hamper.
- b. (i) Confirmed that the parcel sortation to carrier route **at** the DDU is for parcels with 5-digit zip codes that destinate at that DDU. **My** understanding is that several 5-digit groupings may be combined (see UPS/USPS-T25-6(a), Tr. 11-A/3977, in Docket No. R2001-1).
- (ii.) It is my understanding that the clerks are trained in the efficient sortation of parcels in their branch. I do not know the specifics of the "scheme training". It is my understanding that a 9-digit zip code is not required to perform a carrier route sortation.
- (ii.) All else equal, it is possible that manually reading **a** 4-digit zip code extension at the end of an address **could** be accomplished more quickly than reading a

street address. While I do not propose studying the impact of **9-digit** zip codes on the DDU sortation costs, I do recommend that a study be conducted of the **cost** to sort Parcel Post pieces to carrier route at the DDU.

- c. I am not specifically aware of the changes in container use upon entry at the DDU from that of 24 years ago since the Postal Service *has* not performed any studies regarding DDU-entry profiles for Parcel Post since the inception of DDU-entry rates. My understanding is that DDU-entry parcels may arrive at the sortation area on pallets. It is possible that removing shrink wrap from the pallet and reaching for each parcel from the pallet may increase sortation time. While I do not propose studying the impact of containerization on the DDU sortation costs, I do recommend that a study be conducted of the cost to sort Parcel Post pieces to carrier route at the DDU.
- d. (i)and (ii). All else equal, it is possible that the higher the number of carrier-route hampers, the longer the sortation time. While I do not propose studying the impact of the number of carrier route hampers on the DDU sortation costs, I do recommend that a study be conducted of the cost to sort Parcel Post pieces to carrier route at the DDU.
 - (iii) I do not know, but would expect that this could be the case.

USPS/UPS-T2-16. Please refer to your response to USPS/UPS-T2-11

- (a) Please explain your statement that "a cost model could be more complex than the actual operation" and indicate which operation included in the USPS-LR-L-46 cost model might be more complex than the actual operation.
- (b) Your response appears *to* indicate that there is not always an exact **1** to **1** correlation between the operations included in the cost model and the operations represented by the cost pools. **Is** this correct? If it is not correct, please describe your position.
- (c) If part (b) does accurately describe your position to some extent, please indicate why the specific value of a CRA proportional adjustment factor should be used as **a** means to gauge the accuracy of a given cost model.

RESPONSE:

- a. The initial question was with respect to "any cost model." I would not expect the operations included in the Postal Service **cost** model in USPS-LR-L-46 to be more complex than the actual operations.
- b. Agreed. See my response to USPS/UPS-T2-11(b).
- c. See my response to USPS/UPS-T2-12.

USPS/UPS-T2-17 Please refer to your response to PSA/UPS-T2-1 (d). where you state that you can not conclude that DDU-entered mail would avoid incurring costs at MODS facilities. Specifically, you mention miscellaneous and support operations, such as verification activities, computerized forwarding, and the staging of empty equipment

- (a) Please refer to USPS-LR-L-46, page 3, and indicate which of the following fixed MODS cost pools on that page represent **costs** that would be incurred by DDU Parcel Post, and which represent costs that would not be incurred by DDU Parcel Post: 1-6, 8-9, 11-13, 15-23, 26, 28-40, and 42-49. For each cost pool that represents costs that you specify would be incurred by DDU Parcel Post, please explain in detail why DDU Parcel Post would incur those costs.
- (b) Please provide the sum (in cents) of those cost pools in part (a) for which you indicate that DDU Parcel Post would not incur any costs.
- (c) Please confirm that the summed value provided in response to part (b) was included in the rate category cost estimates for both DDU Parcel Post and the corresponding DBMC benchmarks. If you do not confirm, please explain.
- (d) Please confirm that the savings estimates for DDU would have increased had the value you provided in response to part (b) been eliminated from the DDU rate category cost estimate in that analysis. If you do not confirm, please explain.

RESPONSE:

(a) I am not familiar enough with the activities embodied within each MODS cost pools pool to provide a definitive list. It is likely that the activities in certain MODS cost pools treated as fixed by Postal Service witness Miller would not be generally incurred by DDU-entry parcels. Similarly, there also may be fixed nun-MODS pool activities that may generally apply to DDU-entry parcels. For example, the MISC Non-MODS pool is categorized as fixed and includes Bulk Mail Acceptance activities (see USPS-T-11, page 6). Inferences that certain cost pools are necessarily avoided by certain types of parcels must be tempered by the knowledge that the technique used to estimate DBMC-entry worksharing avoidances by accumulating outgoing CRA cost pool costs was found to be incorrect in Docket No. R2000-1 (see my response to PSA/UPS-T2-

- 2(b) in this docket). This estimation technique was subsequently replaced by the hybrid methodology in Docket No. R2001-1.
- **(b)** See response to part (a).
- (c) Confirmed that costs pools that were categorized as fixed by witness Miller were included in the adjusted costs for all rate categories.
- (d) While I am unable to provide an estimate, I note that if, after appropriate study and review, witness Miller modeled the operations in the cost pool that he categorizes as fixed, the pool would then be recategorized as proportional. There would be corresponding changes to both the modeled costs and the CRA Proportional Adjustment Factor, The resulting calculations would yield the impact on worksharing estimates.

cross-examination. One participant has requested oral cross-examination, the Parcel Shippers Association.
cross-examination, the Parcel Shippers Association.
•
Mr. May, would you introduce yourself for the record
and continue?
MR. MAY: Yes. I'm Timothy May, counsel for
the Parcel Shippers Association.
CROSS EXAMINATION
BY MR. MAY:
Q Good morning, Mr. Luciani.
A Good morning.
Q First of all I'd like you to refer to the
section of your testimony which begins on page 3 and
is captioned "The Postal Service has improperly
increased parcel post work-sharing rate differences to
more than avoided costs."
In that section you criticize the Postal
Service for marking up parcel post transportation
costs when designing rates; is that correct?
A For marking up parcel post transportation
work sharing avoidances are marked up by the Postal
Service under its procedures.
Q Am I correct that the Postal Rate Commission
marked up parcel post transportation costs when
designing the rates in the last fully litigated case,

1	2000- ?
2	A Yes. In R2000-1 the Commission did follow
3	the Postal Service procedure. However, as I outlined
4	in my testimony that was in direct contrast to this
5	Commission's process in R97-1 and there was no
6	explanation as to the reason for the change. So I
7	believe it was inadvertent on behalf of the
8	Commission.
9	Q We will get to that. But isn't it also
10	correct that the Commission has accepted that same
11	approach of marking up the transportation cost
12	avoidance in the intervening cases since 2000-1?
13	2000-5 for example?
14	A That's not my understanding. My
15	understanding is those cases were a result of
16	settlement or special circumstances. I believe this
17	is the first fully litigated case since R2000-1.
18	Q Well, I understand it wasn't fully litigated
19	but in arriving at the recommended prices even though
20	the case was settled isn't it the case that the Postal
21	Service also marked up in 2000-5, marked up the
22	transportation cost avoidance?
23	A It may have. I do not know.
24	Q Okay. And you've just said, and you also in
25	your testimony state you believe that the Commission's

- 1 use of that method in 2000-1 was inadvertent; is that
- correct?
- A Yes, that's correct. In R2000-1, yes.
- 4 Q And actually you say that the Postal
- 5 Service's method in the Commission's workpapers was
- 6 inadvertent?
- 7 A Yes.
- 8 Q But it's in the Commission's workpapers, is
- 9 it not?
- 10 A Yes. In R97-1 I had specifically criticized
- the Postal Service approach. The Commission's agreed
- in its decision, modified its workpapers or set up its
- workpapers to deal with the problem in a way that I've
- 14 now outlined and re-addressed in my exhibit to my
- 15 testimony here.
- 16 In R2000-1 I believe inadvertently the
- 17 Commission just simply pulled in some facets of the
- 18 Postal Service model, thereby adopting the methodology
- inadvertently.
- 20 Q So the Commission just screwed up when they
- 21 did that?
- 22 A I don't know the underlying rationale or
- perhaps the review done by the Commission as part of
- 24 that. I know when I specifically looked at it in R97-
- 25 1 it dealt with it appropriately.

1 Now you weren't in the room when the Q 2 Commission staff was developing their workpapers, were 3 you? 4 Α I was not. 5 Q And so you really don't know why the 6 Commission marked up transportation costs in designing 7 parcel post rates, do you? I do not know --8 Α MR, McKEEVER: Mr. Chairman, may I ask Mr. 9 10 May if he would modify the question, say marked up transportation cost avoidances? There is a difference 11 12 and Mr. Luciani made that clear I think in response to an earlier question. Ī> MR. MAY: Yes, he did. And that's indeed 14 what we're referring to, Mr. Luciani. 15 16 CHAIRMAN OMAS: Thank you, Mr. May. 17 THE WITNESS: Could you repeat the question? BY MR MAY: 18 Q I just said that you don't, so you really 19 don't know why the Commission marked up the cost 20 avoidances for transportation costs in 2000-1 since 21 22 you weren't in the room and you weren't privy to what 23 they were doing? 24 Α Yes. In R2000-1 there was no explanation in the decision, unlike in R97-1 when there was an 25

- 1 explicit rejection of the Postal Service approach.
- 2 Q Yeah, and as you've said, in R97 they did
- 3 not do that. So if they didn't do it in 97 and they
- 4 did it in 2000-1 isn't there a presumption that the
- 5 Commission had the workpapers available to them that
- 6 could have been used to design parcel post rates
- without the markup and that they chose to use the
- 8 markup of the cost avoidance?
- 9 A There's always that possibility. Without an
- 10 explanation in the decision itself it's hard to
- 11 understand why the Commission would have adopted
- something different than it did in R97, and in
- particular that violates the efficient component
- 14 pricing idea of not marking up, passing on more than
- 15 100 percent of these avoided costs through.
- 16 Q Now, would you refer to your response to
- 17 PSA-T-2-9?
- 18 A Number 9?
- 20 you confirmed that the Postal Service estimates that
- 21 the own price elasticity for Parcel Select is negative
- 22 1.399 and the own price elasticity for non-destination
- entry parcel post is negative .374?
- 24 A Yes. Your question pointed me to those
- 25 figures in the --

- 1 Q Yes. And you confirmed that, yes.
- 2 A -- Postal Service's filing and I confirmed
- 3 that those two figures were used.
- 4 O And you haven't done any studies to the
- 5 elasticities of non-destination entry parcel post,
- 6 have you?
- 7 A I have not done those studies on
- 8 elasticities, no.
- 9 Q Now, if you'll refer back to page 19 of your
- testimony you there recommend a 90 percent pass-
- 11 through of mail processing cost avoidances; is that
- 12 correct?
- A Do you have a specific line that you're
- 14 referring to? Lines 2 through 4?
- 15 Q Yes.
- 16 A Okay.
- 17 Q Two, three and four, yes. So you have
- recommended a 90 percent pass-through?
- 19 A Yes. That's similar to the pass-through
- used by the Commission in R2000-1, the last fully
- 21 litigated proceeding.
- 22 Q Now, all else being equal, a 90 percent
- 23 pass-through will result in higher rates for Parcel
- 24 Select pieces than would a 100 percent pass-through;
- 25 correct?

1	A All else being equal, yes, the pass-through,
2	slightly lower pass-through that I'm recommending
3	would likely result in Parcel Select rates being
4	somewhat higher.
5	Q And conversely, it would also indicate lower
6	rates for non-destination entry parcel post?
7	A Yes. The retail parcel post would have a
8	corresponding decrease.
9	Q Now, given the much larger own price
10	elasticity of Parcel Select, lower rates for non-
11	destination entry at the expense of higher rates for
12	parcel post is going to depress parcel post volume;
13	right?
14	A Again, I haven't examined the elasticities
15	within the subtext or context of the parcel post, the
16	rate categories within parcel post.
17	Q well, if it has, if Parcel Select has a
18	negative 1.399 isn't it axiomatic that a higher
19	increase will depress volume?
20	A All else equal
21	Q All else equal.
22	A All else equal the demand response to price
23	changes for Parcel Select according to the Postal
24	Service elasticities is higher than that for retail
25	parcel post, yes.

1	Q Can you think of any company that would
2	benefit from rates that drive away parcel post volumes
3	from the Postal Service?
4	A I haven't examined that.
5	Q You can think of no company that's a
6	competitor of USPS parcel post that might benefit from
7	these higher rates?
8	A I don't know whether they benefit from
9	retail price change or non-retail price change. I
10	haven't examined the pricing context, I focused on the
11	parcel post costing models.
12	Q So you're not familiar with the axioms of
13	economics about the cause and effect of price
14	increases in volume relationships?
15	A I certainly understand basic economics.
16	Q But you still can't think of any company,
17	perhaps the one you're representing today, that might
18	benefit from having higher Parcel Select rates?
19	A Potentially they could benefit from higher
20	Parcel Select rates. I don't know whether that would
21	more than offset impacts on retail rates, retail
22	parcel post rates.
23	Q Would you refer to footnote 14 of your
24	testimony on page 7?
25	A Page 7, footnote 14?

1	Q Correct, footnote 14. Yes.
2	There you state, "the possibility that a
3	small number of parcel post pieces may be entered at a
4	DDU is not as unrealistic as Postal Service Witness
5	Miller suggests in this interrogatory response.
6	Mailers may drop more than one subplats of mail at the
7	DDU so that the parcel post parcels may be only a
8	small fraction of the total drop shipment."
9	Can you tell me in general what types of
10	companies drop ship parcels to the DDU?
11	A I have not my understanding there have
12	been no studies at all of entry at the DDU. I am not
13	aware of who enters at the DDU, what types of
L4	companies. I presume that some of those are
15	represented by yourself. I'm focusing solely on the
16	cost of the Postal Service to handle these DDU entry
17	parcels.
18	Q Well, but what we're looking at is your
19	statement that there may be significantly more parcels
20	that are dropped at the DDU than is suggested by the
21	Postal Service. So my question is, if you'll accept
22	for purposes of the question that parcel consolidators
23	are those who primarily drop ship at the DDUs, if
24	you'll accept that?
25	A I can accept that parcel consolidators do
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1	drop ship at the DDU.
2	Q Now, that they are, for purposes of this
3	question that they're the principal depositors of
4	parcels at the DDU?
5	A I can accept that. I have no data behind
6	that but I can accept that as a hypothetical.
7	Q Well, do parcel consolidators generally just
8	enter parcels at the DDU or do they also enter other
9	types of mail, letters and flats, or do you simply
10	have no idea?
11	A Again I don't know. I don't think the
12	Postal Service knows, or if it knows it hasn't
13	certainly updated its studies or filed any evidence of
14	what is happening at the DDU, the DDU entry profiles,
15	what containers they're coming in, are they coming in
16	in pallets, are they being dropped shipped three at a
17	time, ten at a time, in combinations with other sub-
18	classes, with other types of parcels. I simply don't
19	know. I've asked a series of questions over the years
20	and the answer is always we have not studied DDU
21	entry.
22	Q Now, if you would refer to your response to
23	Parcel Shippers' question 10-C. You will see there
24	you were asked whether Parcel Select DDU parcels
25	comprise only a small fraction of the total of parcels

- 1 entered at the DDU and to explain your response. And
- 2 you said you hadn't performed the calculations. But
- you did provide test year after-rates parcels volumes
- 4 by sub-class in that response; correct?
- 5 A Yes. In response to your question, I was
- able to find varying volumes in the test year after-
- 7 rates. Those were available in the filing.
- 8 O And in your answer you show that 186 million
- 9 parcels, Parcel Select DDU parcels, do you know?
- 10 A Correct.
- 11 Q And 31 million standard mail regular DDU
- 12 parcels?
- 13 A Yes. That's the projection for those that
- 14 would taken to the new DDU entry rate for standard
- 15 mail.
- 16 Q And 72 million bound printed matter pieces,
- which includes flats and parcels; correct?
- 18 A Some share of that is flats, yes.
- 19 O And some small amount., 100,000 standard mail
- 20 ECR DDU parcels?
- A Yes, correct.
- 22 Q So just looking at those numbers it
- 23 certainly looks like, and the Postal Service is
- 24 projecting about 290 million DDU parcels including BPM
- flats in the test year after-rates?

1	A I don't see that number here.
2	Q That is what they projected in this case?
3	A You'll have to provide me context for that
4	number. Just what is it again?
5	Q The number was 290, that's projecting after-
6	rates 290 million DDU parcels, which includes bound
7	printed matter parcels and flats.
8	A Again I'm not following. I'm familiar with
9	the parcel post volumes. That 290 million number
1 0	doesn't comport with what I know from parcel post.
11	Bound printed matter I know what I've put down in this
L2	interrogatory.
L3	If you're summing those two I still don't
L 4	get 290, so I'm not exactly sure what your number is.
15	Q Well, just looking at the numbers you did
1 6	provide for 2005, isn't it the case that most parcels
17	that are entered at the DDU will be Parcel Select
18	parcels?
1 9	A Yeah, it appears that more than 50 percent
20	of those dropped at, of parcels dropped at the DDU
2 1	will be DDU entry parcels if the projections bear out.
22	Q And consequently Parcel Select DDU parcels
23	that are entered at the DDU won't be "just a small
24	fraction" of total DDU parcels as you imply?
25	MR. McKEEVER: Objection, Mr. Chairman. I

- 1 believe that's a mischaracterization of the testimony.
- 2 Mr. Luciani did not say that in his testimony in the
- 3 portion quoted by Mr. May that on a system-wide basis
- 4 in total DDU entered parcels would be only a small
- fraction of total parcels drop shipped. He was
- 6 addressing a single shipment. That's clear.
- 7 If Mr. May would modify his question I would
- 8 have no objection.
- 9 CHAIRMAN OMAS: Mr. May?
- MR. MAY: Yes.
- 11 BY MR, MAY:
- 12 Q Well, answer the question that your counsel
- 13 put to you then.
- 14 A I'm not sure which question that was.
- 15 O The question is whether or not that more
- than just a small fraction of total DDU parcels are
- 17 Parcel Select DDU parcels?
- 18 A Yes. If you narrow it to parcels I agree
- 19 that more than a small fraction of the parcels in the
- 20 test year after-rates are projected to be entered at
- 21 the DDU. Of course there is a lot of other mail that
- 22 can be entered at the DDU.
- Q Does UPS enter any parcels at DDUs?
- 24 A I do not know.
- 25 Q So you wouldn't know the composition -- if

1	they do you don't know the composition of what they
2	deliver to the DDUs?
3	A I do not know.
4	Q You don't know whether, for example, that
5	all the shipments dropped to a DDU are all parcels?
6	You don't know whether that's the case or not?
7	A You're speaking of UPS?
8	Q Yep.
9	A Again, I don't know.
10	Q Now, if you'll refer to your response to
11	USPS 17. There you state, "inferences that certain
12	cost rules are necessarily avoided by certain types of
13	parcels must be tempered by the knowledge that the
14	technique used to estimate DBMC entry work sharing
15	avoidances by accumulating outgoing CRA cost pool
16	costs was found to be incorrect in Docket Number
17	R2000-1."
18	You also mentioned the same point in your
19	response to Parcel Shippers' Question 2-B.
20	Now what you were referring to in both
21	instances is that in Docket Number R2000-1 DBMC
22	entered parcels were found to incur some outgoing non-
23	BMD costs; is that correct?
24	A Yes. As of R2000-1 through that time the

DBMC entry work sharing avoidance had been calculated

25

- 1 by simply assuming that all outgoing costs were
- avoided by DBMC entry parcels. And again, as a though
- 3 exercise that seems reasonable. However, when you
- 4 actually went and looked at the data, which we did,
- 5 the IOCS data seemed to indicate or did indicate that
- 6 DBMC parcels were incurring substantial outgoing
- 7 costs.
- 8 At that point in time or subsequent to that
- 9 point in time the Postal Service switched entirely to
- the hybrid methodology that it's using today
- 11 o I'm going to ask you to examine a page of
- 12 PSA Witness Glick's rebuttal testimony from that
- Docket 2000-1. This by the way can be found in
- transcript Volume 41, page 18,074 in the transcript of
- 15 that docket.
- Now, would you accept subject to check that
- in Docket 2000-1 base year the unit outgoing non-BMC
- 18 cost for DBMC parcels was found to be 4 cents per
- 19 piece -- excuse me, 4.5 cents per piece?
- 20 A I simply don't recall that. You'll have to
- 21 repeat that.
- 22 Q Well, if that is what Mr. Glick's testimony
- in that case, is it?
- 24 A I certainly see the pages. Of course I read
- his testimony back five years ago. The underlying

1 context and the arguments I don't recall. I seem to 2 recall that I had found that there were outgoing costs incurred by DBMC parcels, therefore there was some 3 4 double count, that the notion that outgoing costs 5 could not be incurred by DBMC, which was the 6 underlying premise of the approach, was incorrect. 7 I recall, his testimony tried to reach some middle ground saying some of it was, some of it wasn't, which 8 9 is a way of just refining the data in some way. The Postal Service just then at that point said we've got 10 a problem with this hypothetical approach and let's 11 12 just go to the engineering approach, the hybrid model. 0 Well, Mr. Luciani, the total cost number 13 that's shown in that table on that page is based on 14 your own testimony in that docket. 15 Again, now five years later looking at one 16 page I don't know that I -- I'm sure some of these 17 costs may have come from my R2000-1 testimony. I 18 don't know which ones are which. 19 I mean he cites the transcript page number 20 0 for your testimony as the source for this information. 21 You're talking about Table 1? 22 A Q 23 Yes. 24 MR, McKEEVER: Mr. Chairman, I might note for the record that the page supplied by counsel does 25

specifically say on line 12 "I propose the middle 1 2 ground DBMC mail processing cost avoidance." I'm not sure whether there's a question 3 4 pending. BY MR MAY: 5 6 0 There isn't, other than the question was 7 whether or not you had any recollection of these numbers or if you could confirm the accuracy that the 8 outgoing non-BMC costs for DBMC parcels at a unit cost 9 of 4.5 cents? 10 11 I could certainly see that he cited my 12 numbers in column one. You know, without the entire page set around this argument, along with my R2000-1 13 testimony it's difficult for me to now say it's 14 15 exactly from my numbers that the 4.5 cents came from. I can certainly see the calculation there 16 Yeah, and that also shows, does it not, that 17 the outgoing non-BMC costs for non-DBMC parcels was 18 19 **42.4** cents? I see in Table 1 the reference to 42.4 20 cents, yes. 21 And of course this is, you know, historical 22 fact, but if you'll accept subject to check and 23 24 confirmation that indeed those are the unit costs for those two categories, if you could accept that subject

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1 to check if the outgoing non-BMC cost was found to be 2 approximately ten times as large for non-DBMC parcels 3 than for DBMC parcels; is that correct? I see that 42.4 is much larger than 4.5 based on the R97-1. 5 0 It's ten times larger isn't it, about? 6 7 Α Somewhat less than ten. And, yeah, based on 8 the data as of that time. So it's fair to say isn't it that if that is 9 10 the case that was found in Docket R2000-1 that the vast majority of non-BMC costs were avoided by DBMC 11 12 parcels? 13 MR, McKEEVER: Objection to the part of the question that says as found in R2000-1. 14 This is a 15 page from Mr. Glick's testimony, it's not from a 16 Commission decision. If Mr. May will delete that phrase from his question I have no objection to it. 17 18 But I do object to the "as found in R2000-1." BY MR. MAY: 19 20 0 These numbers, if they're correct, would 21 suggest, would they not, that the vast majority of 22 outgoing non-DBMC parcels were avoided by DBMC 23 parcels? Could you say it one more time? 24 0 If this table which shows the unit 25 Heritage Reporting Corporation

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costs of DBMC and non-DBMC parcels, if those are 1 2 correct then it's fair to say, isn't it, that the vast 3 majority of outgoing non-BMC costs were avoided by 4 DBMC parcels? Accepting, accepting this data a 5 Α substantial majority --6 Q 7 Yep. -- of the costs were avoided by DBMC, but 8 not 100 percent, which is what the thought exercise 9 10 used or was inferring. 0 Would you now turn to your response to 11 Parcel Shippers' Question 1? And in response to sub-12 part B of that interrogatory you confirm that in USPS-13 LR-L-46, the Postal Service's parcel post cost model, 14 the unit cost for MODS cost pools that are classified 15 16 as fixed total 15.59 cents per piece; correct? Yes, that's correct under the Postal Service 17 version of this model. 18 19 0 And what is meant by fixed is that the cost for the cost pool is assumed to be the same for all 20 21 parcel post rate categories; is that correct? It has not been modeled by the Postal 22 23 Service analysts and therefore is not deemed to be proportional, therefore is not included in the

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proportional adjustment.

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1	Q And in other words the fixed cost in MODS
2	cost pools for DDU parcels are assumed to be the same
3	15.56 cents as the cost for inter-BMC parcels,
4	wouldn't that be correct?
5	A That's the implicit end result.
6	Q Yes. Now I'd like to talk with you about
7	what that means operationally. I think you clarified
8	in your response to PSA's Question 11-A that if you
9	have reference to that?
10	A I do.
11	Q that you're clarified that MODS cost
12	pools do not include the cost for any post offices,
13	stations and branches, did you not?
14	A Yes. The Postal Service has recently, as of
15	2005-1, moved the distribution costs for those post
16	offices, stations and branches under the MODS system
17	to non-MODS cost pools. It has not done so in the PRO
18	version of the model, which I note in the next
19	sentence, which creates some confusion as to exactly
20	how the Commission would deal with this issue.
21	Q Yes, and since the MODS cost pools do not
22	include costs for post offices, stations and branches
23	then that 15.59 cents of fixed costs must be for
24	postal plants; am I correct?
25	A It would be incurred at MODS under those
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1 plants in the MODS system other than post offices, That does not mean the DDU 2 stations and branches. 3 would have avoided certain miscellaneous activities, 4 verification and so on, my understanding anyway, for example cost pool LD-79 are in the -- are incurred by 5 6 DDU entry parcels and are registered in the MODS cost 7 pools. Well, so the Postal Service's cost model 8 9 does assume that all parcels, as you confirmed, that all parcels, including DDU parcels, incur 15.59 cents 10 11 of costs at postal plants? That is the result of treating the cost pool 12 I don't know that that was the conclusion. as fixed. 13 14 That is the result of treating the cost pool as fixed. So even though DDU parcels are entered at 15 16 the destination delivery units and thus bypass USPS processing at postal plants they still incur this 17 18 15.59 cents which is presumed to apply only to parcels that process at plants? 19 I think I address this at number 17, Postal 20 Service Question Number 17 as well. And I note there 21

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visitation of the parcel post cost model, as I note in

my testimony. Many of the studies are old. I'm sure

are likely cost pools, MODS cost pools that do not

incur DDU entry costs. I'd certainly welcome a full

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1	that with further examination was can move some of
2	these fixed cost pools to proportional cost pools and
3	include then in the model cost.
4	We have to be cognizant that any move, for
5	example, from fixed to proportional would change both
6	the work sharing cost avoidances and the proportional
7	adjustment factor. And without working your way
8	through that you don't know what the end result of
9	that would be. And as such I would certainly welcome
10	looking at all the fixed cost pools along with all the
11	old studies in this model. For example, there is a
12	fixed non-MODS cost pool, the MISC cost pool that
13	includes bulk mail acceptance at the DDU. It sounds
14	only logical that DDU entry parcels would get a large
15	share of that fixed cost pool since they are entered
16	at the post office, station and branch.
17	We also don't know, and it's not been done
18	in the PRC version, what MODS cost pools, whether all
19	the cost pools that are related to DDU entry have been
20	transferred to the non-MODS cost pools. For example,
21	platform costs I don't know whether those have been
22	transferred. It's not clear based on what I was able
23	to read.
24	Q In answer to PSA's Question 1-D you state
25	there that there are a few types of costs at postal

	plants for which you are un ble "to con lude tha DDU
2	entry can't avoid," Is that correct?
3	A Yes. These are the miscellaneous type
4	operations that I'm presuming would be incurred more
5	general for all parcel post, including DDU entry, and
6	trapped at the MODS cost pools.
7	Q Well, this response begins with your
8	statement, "I am not familiar enough with the
9	activities embodied within each MODS cost pool to
10	provide a definitive list. It is likely that the
11	activities in certain MODS cost pools treated as fixed
12	by Postal Service Witness Miller would not be
13	generally incurred by DDU entry parcels."
14	And you also begin your response to PSA's
15	Question 12 in the same way by saying that you are not
16	familiar with say, "I am not: familiar enough with
ì.7	the activities embodied within"
18	So you agree that the DDU entered parcels
19	will avoid incurring costs in some of the fixed MODS
20	cost pools; right?
21	A Again, in Postal Service Request for
22	Interrogatory Number 17 I think I say it's likely that
23	they avoid incurring costs in certain of those cost
24	pools. Again, without a full-fledged review and
25	analysis by the Postal Service and an updating of its

model it's hard to tell. Again, from the DBMC
experience unless you go to the underlying IOCS data
to see whether any what types of parcels were
observed in any of these cost pools your thought
exercise or thought exercises are useful in order to
provide you areas to look at. But it would be nice to
confirm that with the underlying data.
Q Well, despite your lack of familiarity with
the activities in the MODS pools and each MODS cost
pool you nevertheless state, "for example"
A Which? I'm sorry, which interrogatory?
Q This is your response to Question let me
find the exact point your response to Question 17
of the Postal Service which you referred to.
A Yes, go ahead.
Q Well, despite your lack of familiarity you
nevertheless say, "For example, the MISC non-MODS pool
is categorized as fixed and includes bulk mail
acceptance activities." Can you tell me what other
activities are in that pool?
A Again I would I do not know specifically.
I would like to address interrogatories to the Postal
Service on that issue to find out more. And that's
been my main venue for obtaining information. I've

asked a series of questions over the years about which

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1	cost pools are treated as fixed, which are treated
2	proportional and why. Again, as this is brought up
3	and we see Witness I think Van-Ty-Smith's reference to
4	bulk mail acceptance it seems to be in there. Seems
5	perhaps that it's substantial. I'm sure there are
6	other miscellaneous activities. We could look at
7	library reference USPS-LR-L-1 and see other activities
8	are in that MISC cost pool. But without
9	interrogatories I cannot answer how much of it is.
10	Q Well, but you nevertheless were able to say
11	that bulk mail acceptance activities are included in
12	the MODS pool.
13	Let me ask you this, how much of the costs
L 4	in the MISC non-MODS pool is for bulk mail acceptance?
15	A And again I don't know. I just saw the
16	reference that it was included. And I know that the
17	DDU entry is 50 percent of, more than 50 percent of
18	the parcel post volume so I can only presume that it
19	could be substantial. Certainly worth investigating.
20	Q But you're not sure and just because you're
21	not familiar enough with the various things?
22	A Not familiar enough to do that type of
23	analysis, a stratification of the underlying costs by
24	the various sub-operations within that cost pool,
25	particularly in MISC, miscellaneous type cost pool.

1	Q Now, if you would refer to your response to
2	Question 5-D of Parcel Shippers? There you were
3	asked, "In your opinion are Parcel Select no fee
4	electronic delivery confirmation pieces more or less
5	likely than other pieces with electronic delivery
6	confirmation to be entered at postal windows?" And
7	there your answer was that you have not studied this
8	issue with respect to other subclasses and do not
9	know. Do you see that?
1 0	A Yes. Part D, yes.
11	Q Have you studied this issue at all?
12	A No, I have not. I believe I looked at the
1.3	delivery confirmation underlying costs in a prior
14	case. But I just don't know whether I studied that
15	particular issue or not.
16	Q Would you know whether Parcel Select is
17	entered at postal windows or not?
18	A I do not know. As a general matter I would
19	think it would not. And that may well so apply to
20	Priority Mail electronic. But again I do not know
2 1	without further investigation.
22	Q Are you aware whether postal standards allow
23	Parcel Select to be entered at a postal window?
24	A Have not reviewed that. Do not know.
25	Q Does UPS enter parcel Select at postal
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1	wi lows?
2	A I do not know.
3	Q Is Priority Mail with electronic delivery
4	confirmation sometimes entered at postal windows?
5	f A Again I don't know. That would be the other
6	most similar delivery confirmation sub-class to
7	compare to but, again, I have not looked at that.
8	Q Would you agree that if window service costs
9	are excluded the postal Parcel Select no fee delivery
10	confirmation costs calculated by the Postal Service
11	would be 11.82 cents not 14.67 cents, in other words
12	14.67 minus 2.58?
13	A I can certainly do the mathematical
14	difference between those two. You don't know without
15	really looking at the delivery confirmation analysis
16	whether the window service entry was a proxy for some
17	other type of cost that would otherwise be incurred by
18	the electronic delivery confirmation. You just don't
19	know until you look. Sometimes those, the models are
20	set up in such a way that some simplifications take
21	place.
22	Q Well, I asked you, we asked you in PSA-5 to
23	confirm that the Postal Service's 14.67 cents per
24	piece no fee delivery confirmation costs included 2.85

cents of window service costs?

25

- 1 Y s. Y 1 can look at he spre dsheet Α 2 does, yes. 3 0 And you confirmed that it does. Uh-huh. Α 5 And consequently if Parcel Select cannot be 0 6 tendered at a postal window under postal regulations, 7 if that's the case then you would have to exclude that
- 8 2.85 cents from the total cost of non-fee electronic
 9 confirmation, would you not?
 10 A If you were revisiting the study you would
- likely take it out if you were focusing on this
 particular issue and potentially replace it with
 something else.
- Q And I direct you to page 16 of your
 testimony. In your point two there, two, you discuss
 what costs for parcel return service should be used in
 the Postal Service's final adjustment. Isn't that
 what you're discussing there, sir?
- 19 A Yes.
- 20 Q So I gather you do have a general 21 understanding of the final adjustment process?
- 22 A Yes. How the final adjustment figures are -
- become entered into the parcel post rate design
- 24 model, yes.
- 25 Q Now, in your response to **PSA's** Question 4-E

- 1 you state that "based on the available data a 209.7 million estimate is reasonable for parcel post rate 2 design purposes." Correct? 3 Yes. Using the test year after-rates volume 4 estimation in the parcel post rate design model using 5 6 the share likely to use delivery confirmation 209 million is a good estimate for delivery confirmation 7 used in the test year after-rates. 8 9 And so the 209 you've calculated by multiplying the test year after-rate Parcel Select 10 11 volume, which is 244.1 million, by the percentage of 12 Parcel Select pieces that use no fee delivery confirmation which was 85.9 percent in fiscal year 13 2005: is that correct? 14 Yes. And I think that was my recommendation 15 in my testimony that procedure be used. And I think 16 it's on page 16, point number one. Yes. 17 18 Now, is this 209.7 million is your best 19 estimate of test year after-rate Parcel Select no fee delivery confirmation volume, that's your best 20
- 22 A I think that's a reasonable estimate, yes.

21

estimate?

23 Q Do you agree that the Postal Service's
24 estimate of Parcel Select no fee delivery confirmation
25 volume used in the final adjustment process was 267.8

1	million pieces?
2	A Yes. I think I responded to interrogatory
3	4-D
4	Q 4-D, yes, that's your answer. 4-D.
5	f A Yes. That the Postal Service used base year
6	shares, it appears to project delivery confirmation
7	volume in aggregate. And I asked a number of
8	questions in interrogatories to the Postal Service as
9	to what is the right volume to use for the final
10	adjustment. If indeed it were to lower the Parcel
11	Select volume where would that cost otherwise go?
12	The Postal Service, recognizing this
13	differential, answered the interrogatory saying it
14	believed it had to do it this way given the
15	forecasting technique that it used. I'm fully
16	cognizant the 267 million is different than 209
1 7	million. Given that, I have not proposed applying
18	that full final adjustment just to Parcel Select. I
19	have only suggested that 209 million be used and
20	applied directly to Parcel Select.
21	Q Well, how is it that you think that 209.7
22	million is their best estimate which assumes that 267
23	million test year after-rate volume, how can that be
24	accurate when the 267.8 million is substantially
25	inflated over the Postal Service's own estimate of

1	244.1 million?
2	A I agree that there's a difference. I think
3	in PSA Number 13, UPS-T-2-13, I respond to that
4	question. Again it's a question to the Postal
5	Service. I don't know whether there was further
6	discovery to the Postal Service on this issue. If
7	there is I'm not aware of. They were the questions
8	that I asked about it. The Postal Service said that
9	it's forecasting technique required using base year
10	shares. Obviously, using base year shares will be
11	different than using the ultimate test year after-rate
12	volumes that come out of the rates that are actually
13	designed and pushed back through the forecasting
14	model.
15	SO, again, I don't knaw enough to say that
16	the Postal Service can be able to just simply plug in
17	this new volume and not do anything else, not transfer
18	that cost somewhere else. I don't know. I asked the
19	question of the Postal Service. They said essentially
20	that they would not recommend doing so.

- 21 Q Well, it's certainly the case that you can't have more no fee confirmation services than there are 22 Parcel Select? 23
- That's seems reasonable, yes.
- 25 Q Thank you.

A

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1	Now, bac opages 5 to 17 of your
2	testimony. You indicate that "the window service cost
3	avoidances should be calculated using parcel return
4	service pieces counted as non-drop ship pieces since
5	PRS pieces are not eligible for drop ship rates and,
6	henceforth, the window service costs for PRS should be
7	separately analyzed in calculating window service
8	savings." Is that?
9	A Correct.
10	Q Now, consistent with your recommendation
11	that PRS pieces should be counted as non-drop ship
12	pieces should window service costs for PRS pieces also
13	be counted as non-drop ship costs?
14	A Yes. I would recommend that PRS be treated
15	separately certainly in the future. It appeared that
16	there might have been some sort of data mistake, I
17	don't know how systematic it was, as to where those
18	costs were trapped for window service for PRS parcels.
19	Ultimately I strongly recommend that those costs be
20	broken out and separately identified so that they
21	don't get mixed up in this particular calculation.
22	Q Well, I refer you to your answer to PSA
23	Question 8. And would you agree that in response to a
24	UPS interrogatory UPS-T21-14-C the Postal Service
25	stated that "PRS mail would likely be treated as drop

ship mail in the IOCS activity codes"? Do you see 1 2 that? 3 Yes, I see that. Q I'd like to clarify your response to Question 8-A. Is it fair to say that you simply have 5 no idea regarding whether window service costs for 6 parcel return service pieces are classified as costs for drop ship pieces or non-drop ship pieces because 8 you don't understand how the Postal Service defined 10 "likely," the term "likely" in its response? Certainly the Postal Service did not 11 12 collect, apparently did not collect the data correctly 13 or trapped the PRS separately and may have rolled them 14 in with drop ship parcels. In some instance or a lot of instances again in the future I'm certainly 15 recommending that that be stripped out, that that 16 misidentification, to the extent there was one, be 17 18 corrected. The Postal Service says it was likely, 19 therefore we included it with drop shipped. Again, 20 2 1 without knowing how likely this was, whether it was 22 systematic as I note in my result, or simply it happened on occasion without really knowing I'm not 23 really sure why you would put all of it in one, in one 24 25 category versus another.

_	
1	Q Well, why didn't you ask them? Why didn't
2	you ask them what they meant by "likely"?
3	A Again, the recommendation is mostly for the
4	future. If indeed I could have followed up and asked
5	them to refine the definition of "likely" I don't know
6	that they would know. But I could have followed up, I
7	agree.
8	Q If you look at your answer to Parcel
9	Shippers' 6-F, now there you indicate that "no carries
1 0	cost differentials were included by the Postal Service
11	in the assignment of costs of parcel post rate
12	categories including any collection cost differences
13	and delivery cost differences that would result from
14	the higher average of cubic feet for parcels for
15	Parcel Select parcels." Would you agree that a larger
16	percentage of non-destination entry parcels than of
17	Parcel Select incur collection costs?
18	A I would agree certainiy you're pointing out
19	an area here, carrier costs, that should be evaluated
20	There may well be collection costs performed by the
21	carrier that are not generally incurred by Parcel
22	Select parcels. That would be one part of the
23	evaluation that should be conducted.
24	The fact that the Parcel Select parcels on
25	average are about 40 percent higher cubic feet per

- piece on average likely has an impact on how much it 1 2 costs to deliver those parcels. I would certainly like to see an examination of that cost avoidance or 3 cost calculation as well. 4 Well, I'm asking about collection costs. 5 Q Uh-huh. 6 And isn't it the case that if a higher 7 0 8 percentage of non-destination parcels incur collection costs than destination parcels doesn't it also follow 9 that that results in higher collection costs for non-10 11 destination entry parcels than for parcel select? Yes. Accepting that premise. And again, as 12 I just stated I would certainly welcome an 13 investigation into the carrier cost differentials. 14 Have you performed any analysis of the 15 16 impact that the cube of a parcel post piece has on the cost to deliver it? 17 18 I have not performed a specific analysis. Ι 19 asked I think two or three interrogatories to the Postal Service in this docket and in prior dockets. 20 21 And the answer that was received was that in all likelihood a higher cubic feet per piece would have an 22 23 increased cost, increased impact on delivery cost. That was the answer that was received. 24 25 0 well, can we agree that collection costs are
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Τ.	nigher for non-destination entry parcets than for
2	Parcel Select?
3	A It seems likely that the collection costs
4	incurred by carriers would be higher for retail
5	parcels. Without looking at the data I can't say any
6	further.
7	Q And I take it that you simply can't be sure
8	of the impact of differences in average cube between
9	Parcel Select and non-destination entry parcel post
10	would have on delivery costs or any other costs for
11	that matter; is that correct?
12	A Again it's the same answer, there can be a
13	logical inference that there might well be a
1 4	difference. There was a Postal Service witness agreed
15	that there might be or likely would be additional
16	costs incurred with the higher cube. Again, at that
17	point it merits investigation and study.
18	MR, MAY: That's all, Mr. Chairman. Thank
19	you, Mr. Luciani.
20	CHAIRMAN OMAS: Thank you, Mr. May.
21	Is there anyone else who wishes to cross-
22	examine Witness Luciani?
23	(No response.)
24	CHAIRMAN OMAS: Are there any questions from
25	the bench?

1	(No response.)
2	CHAIRMAN OMAS: Being none, Mr. McKeever,
3	would you like some time with your witness?
4	MR. McKEEVER: Five minutes, Mr. Chairman.
5	CHAIRMAN OMAS: Why don't we take about a
6	10-minute break and we'll be back. Okay?
7	MR. McKEEVER: Thank you.
8	(Brief recess.)
9	CHAIRMAN OMAS: First of all I apologize, I
10	had to take a call. So, Mr. McKeever?
11	MR, McKEEVER: We have no redirect, Mr.
12	Chairman.
13	CHAIRMAN OMAS: Thank you.
14	Mr. Luciani, that concludes your testimony
15	here today. We appreciate your contribution to our
16	record and you are now excused. Thank you.
17	THE WITNESS: Thank you, Mr. Chairman.
18	(Witness excused.)
19	CHAIRMAN OMAS: This concludes today's
20	hearings. We will reconvene tomorrow morning at 9:30
21	a.m. when we will receive testimony from I'm going
22	to really botch these names so please forgive me
23	Onichi, Otti, Glick, Gorman I can get those
24	Glick, Gorman and Wilbur. So we'll see you tomorrow
25	morning at 9:30.

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1
                  Thank you very much and have a pleasant day.
 2
                  (Whereupon, at 10:54 a.m., the hearing was
 3
      recessed, to reconvene at 9:30 a.m., Friday, November
       3, 2006.)
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CASE TITLE: Postal Rate and Fre Changes

HEARING DATE: 11/2/06

LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Rate Canal Sach

Date: 11/7/06

Official Reporter

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